

A History of Economic Thought

by

Isaac Ilych Rubin

Translated and edited by Donald Filtzer

Afterword

by

Catherine Colliot-Thélène



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CHAPTER TWENTY-FIVE

The Industrial Revolution In England

In the England [and Scotland!—Ed]* of Adam Smith industrial capitalism was still in its early stages. Agriculture held first place, while handicraft and cottage industry continued to prevail within industry. Industrial capitalism could begin its victorious progress only after the *factory*, with its extensive application of machinery and steam engines, had supplanted the manual labour of the *manufactory*. This transition from manufactory to factory took place during England's *industrial revolution*; embracing the latter quarter of the 18th century and the first quarter of the nineteenth. This is precisely the lapse of time that separates Ricardo's activity from that of Smith. If we can call Smith the economist of the *manufactory* period, Ricardo's writings arose against the background of rapidly developing *factory*, machine production.

The beginning of the industrial revolution is usually set at 1769, the jumping off point for a rapid succession of inventions which completely transformed production technology. It would be a great mistake, however, to see the industrial revolution as the result of the accidental appearance of fortuitous inventions. Machines to replace human labour had been invented before. But during the guild period, when the crafts were working for a restricted local market, such machinery was unnecessary, and could only spell ruin to the handicrafts. It is therefore understandable that the guilds used every means they could to oppose their introduction, secure their prohibition, destroy the prototypes made by audacious inventors, and have the

*Throughout, apart from this addition we have retained Rubin's constant references to 'England' and 'English' rather than changing these to 'Britain' 'The United Kingdom' 'British' etc. 'Britain' and 'British' would obviously be more accurate in most cases but for several reasons (the industrial revolution's locational priority in England, the barely consolidated nature of the entity 'The United Kingdom' which was formed only in 1801, the lack of centralization of the State in many spheres, as well as Rubin's own preference) we have retained his 'England' and 'English' [Ed.]

latter banished from a town or put to death. Thus the use of the ribbon loom was banned in the 16th century, that of a machine for manufacturing needles at the beginning of the 17th century, and so on.

During the 17th and 18th centuries—the epoch of the decline of the guilds, the strengthening of *merchant capital*, the growth of mass (cottage industry) production for *export*, and the birth of the *manufactories*—the situation altered. An immediate objective for entrepreneurs was now to lower production costs. The urge to make technological improvements and economies in *costs of production* gave rise during the 17th century to a feverish pursuit of inventions. The innovations of the 17th century—the extensive use of any and every type of water mill, technical innovations in mining and metallurgy (the use of machines to pump water out of mines, the construction of blast furnaces), improved methods of transmitting power (cog-wheels and fly-wheels, transmissions)—all prepared the way for the enthusiastic acceptance of the machine within industry. Yet prior to the middle of the 18th century these different inventions were incapable of revolutionizing an industry which remained dependent upon power sources (man, animals, and water) that were either weak or could be driven by machine power only in specific localities.

The stimulus for the industrial revolution at the close of the 18th century came, as we know, from inventions 1) in the *cotton textile* industry, 2) in *metallurgy*, and 3) the invention of the *steam engine*. Each of these was merely the end result of a long line of preceding inventions, the outcome of quests that had extended over decades.

It was no accident that this rapid succession of inventions took place in the youngest branch of England's textile industry, *cotton textiles*. Making its appearance in England only late (in the 17th century) it had not been subjected to guild regulations. Cotton textiles could only win out in its intense struggle with the older woollen industry by relying on new technical improvements. In the middle of the 18th century looms were both improved and made bigger in size. But as the spindles used in spinning continued to retain their medieval construction, spinners were unable to provide the weavers with enough thread. This thread 'famine' compelled inventors to start looking for new methods of spinning. In 1769 Arkwright took out a patent on his 'water' machine, an improved version of the *spinning machine* that he had invented in the 1730's. Within a year Hargreaves had taken out a patent on his spinning 'Jenny'. Finally, in 1779, Crompton combined the achievements of these two inventions into his

'mule', which began rapidly to drive out hand spinning. A spinner using this machine could prepare 200 times as much thread as he could without it. Now it was the weavers who could no longer keep up with all the thread supplied by the spinners: there was an urgent need for an improvement in weaving methods. In 1785 Cartwright invented the *mechanical loom*, but it was not used extensively until further improvements had been made to it. From 1813 onwards it began to drive out hand weaving.

Gradually the spinning and weaving machines spread into the wool industry as well.

A second field of technical inventions was *metallurgy*. Up until the middle of the 18th century both iron and cast iron had been produced using wood fuel. Blast furnaces were set up near forests, moving to new sites when the supply of wood became exhausted. By the 17th century England was already beginning to record a shortage of forests. At the start of the 18th century the scarcity and rising price of wood fuel caused metallurgy to pass through a severe crisis and recession. It was essential to find new forms of fuel. Such fuel existed in the form of hard coal, but prior to the mid-18th century the numerous attempts that had been made to coke coal and use it in the processing of iron had all met with no result. Only after the mid-18th century was pig iron extensively produced using mineral fuel (Derby's method, invented in 1735); beginning in the 1780's, rolled iron started to be produced using hard coal, thanks to the new method of 'puddling' invented by Cort in 1780. The *combination of iron and coal* that was to be so important for capitalism had now taken place [1].

Finally there was the most important and universal invention of this period: in 1769 James Watt built his famous *steam machine*, a pump for removing water from mines. The artificial removal of water from mines had begun as early as the 16th century. In 1698 Severi had invented for this purpose the first steam engine which, in the improved version given it by Newcomen in the early 18th century, had become widely used in mining. However, Newcomen's machine could not cope with very deep shafts or a strong head of water. Watt's new invention eliminated this defect. His initial machine was intended only for the extraction of mine water. In 1781, however, after additional improvements, Watt converted his machine from a pump into a *universal steam engine* applicable to all branches of industry. Following its initial introduction into textile and metallurgical production, the steam engine seized one branch of industry after another. At the start of the 19th century the steam engine was applied to

transportation (the steam ship, railways) England entered *the age of steam*.

The inventions just described could not have exerted the swift and revolutionary impact they did had there not existed the *socio-economic conditions* necessary for the extensive development of factory industry. By the end of the 18th century these conditions were already present in England. On the one hand, the epoch of commercial capital had already seen a significant accumulation of capital in the hands of traders, financiers, industrialists, etc.; the new factory industry presented these free capitals with a wide-open field for investment. On the other hand, landless peasants, ruined craftsmen and cottage labourers, and paupers of various sorts provided in abundance the *human material* that capital could employ for its own needs. The ancient guild restrictions that had stood in the way of capitalist development had already fallen into decay by the end of the 18th century. In the 1780's Tucker could say 'the privileges of the guilds and the trading corporations in the towns have at the present moment only insignificant power and are incapable of causing a great deal of harm, as was formerly the case.' [2]

Under these conditions *factory industry* grew at an extraordinarily rapid rate. In the words of one contemporary, 'a new race of factory owners rushed to set up factories wherever the opportunity presented itself: they began to fix up old barns and sheds, punched windows in bare walls, and transformed these premises into weaving workshops.' 'Any who had capital, however small it might be, threw it into a business: shop keepers, inn keepers, goods ferrymen, all became factory owners. Many of them met with failure, but others attained their objectives and acquired fortunes.' [3] The period from 1788 to 1803 was called the 'golden age' of cotton textiles, with production increasing three-fold during that time. This type of rapid growth in production was made possible only by the introduction of machinery which cut *production costs* and caused the *price* of cotton cloth to *fall* considerably. The introduction of the spinning machine brought down the production costs of thread from twelve shillings to three shillings in 1800, and even to 1 shilling in 1830. With the fall in the costs of production came a cheapening of commodities: the price of a pound of thread fell from thirty-five shillings to nine shillings in 1800, and to three shillings in 1830. Production costs and prices on many industrial commodities fell between ten and twelve times. Cheap cotton cloth began to displace more expensive woollens; thanks to their cheapness they managed to force their way into the remote

countryside and onto foreign markets. In the 17th and 18th centuries the fate of England's economy had depended primarily on its wool industry; from the beginning of the 19th century onwards, it was the cotton industry that played this role.

The feverishly quick advance of factory production brought profound changes to the English economy. It was only now that the centre of gravity shifted from agriculture to industry. On the eve of the industrial revolution (1770) England's population was divided about equally between town and country; a half century later (1821) agriculture employed only 33% of the population. A flight from the countryside had begun: the population of the factory towns grew with incredible speed. Between 1760 and 1816 the population of Manchester increased from 40,000 to 140,000; that of Birmingham from 30,000 to 90,000; that of Liverpool from 35,000 to 120,000. England was on the way to becoming '*the workshop of the world*,' providing factory-made goods for the rest of the world. Its foreign trade grew rapidly. Between 1760 and 1815 imports into England went from ten million to thirty million pounds sterling, its exports from fifteen million to fifty-nine million. Having previously had the export industry subordinate to it, the export trade now itself became subsidiary to a powerfully developed industry. The leading role gradually passed from *commercial* to *industrial* capital.

The industrial revolution opened up vast prospects for a great forward surge of England's productivity of labour and national wealth. Yet even in these first stages of its development, industrial capitalism revealed with utmost clarity its negative, as well as its positive aspects. The colossal rise in the nation's production did not reduce the poverty of its masses in the least. Machinery which was intended to save on human labour frequently gave a further push to the *deterioration* in the labourers' working conditions. Introduced at a feverish pace, it displaced hand spinners, weavers and other workers, who were threatened with either death by starvation or an existence as paupers. Understandably, the workers looked upon the machine as the most evil of their enemies. 'The machine' wrote one worker, 'has left us in rags and without a living, the machine has driven us into a dungeon, locked us up in a prison worse than the Bastille. I look upon any improvement which tries to reduce the demand for human labour as the most dreadful curse that can fall on the head of the working class, and I consider it my obligation to oppose the introduction of machinery, this scourge, into any branch of industry whatsoever.' [4] This passionate protest expressed a feeling widely held by the working

masses The introduction of machines often provoked workers' riots: they burned down factory buildings, smashed the machinery, and tried to have it proscribed. These spontaneous movements, however, were powerless to halt the process of bringing in machinery.

The machine meant the utter ruin of hand spinners and weavers, put an end to the *cottage* industries that had provided the peasant family with a second means of income, and made adult workers compete for work by drawing women and children into the factory. Although it is true that female labour had also been used in cottage industries, the woman had previously been working at home on her own, whereas now her departure for the factory meant leaving the children unattended unless they, too, came along. Engels, in his famous book, *The Condition of the Working Class in England*, painted a shocking picture of the conditions under which workers laboured in the final period of the industrial revolution (the 1830's and 1840's): five year old children working in factories, women and children performing heavy labour down the pits, children of seven spending twenty hours a day underground. Parish orphanages used to hand over whole flocks of children to factory owners, ostensibly for 'training', but in reality for forced labour. The factory owners would pass them from one to another like slaves.

Conditions were no less difficult for adult workers. Factory legislation was as yet non-existent; the law placed no restrictions on the exploitation of labour, while workers' trade unions were banned and subject to government prosecution. The working day averaged 13 to 14 hours, but was often even longer. The lack of hygiene in the factories was horrific. As for wages, in *monetary* terms these on the whole rose throughout the second half of the 18th century,* but in *real* terms they fell due to the sharp rise in the price of corn and other means of subsistence (meat, butter, etc.) According to Barton, in 1790 the weekly wages of a skilled worker would buy 169 pints of corn, in 1800 only 83.

The sharp fall in real wages is accounted for by the swift rise in the prices of grain and other agricultural produce which began in the last decade of the 18th century and ended in 1815, with the conclusion of the Napoleonic war. In the 1770's, when the industrial revolution began, the average price of corn stood at about forty-five shillings per quarter. In the 1790's it was fifty-six shillings, rose to eighty-two shillings during the first decade of the 19th century, and to 106

* In those branches of industry (such as spinning and weaving) where the displacement of manual labour by machinery was very rapid money wages also fell.

shillings in the period 1810-1813. That corn prices rose so rapidly is explained first by the growth of England's urban industrial population, which heightened the demand for corn, and second, by the short-fall in the supply of corn coming from agrarian countries (e.g., Prussia and Poland) during the war with Napoleon. It was not simply the war and Napoleon's declaration of the continental blockade that slowed down the flow of cheap corn into England: the English government, acting in the interests of the landlords, did all it could to hinder the import of foreign grain through the imposition of *high customs duties*. By a law of 1791, the import of foreign grain into England became possible only if the latter's price on the domestic market was raised to fifty-five shillings per quarter. In 1804 this base price was raised—in the interests of the landowners—to sixty-four shillings, and in 1815 to eighty-two shillings. The combined effect of a number of factors (the country's rapid industrialization, the war with France, harvest failures, and agricultural protectionism) acted to produce a colossal rise in grain prices over the period 1790-1815.

At the sight of such a vertiginous increase in corn prices, farmers and landowners rushed to utilize every spare plot of land. The 'enclosure' of common lands took on vast proportions. Large capitalist farms increasingly displaced peasant holdings. Poor lands, waste lands, bogs—all of which were deemed unprofitable when corn prices were lower—now began to be cultivated. The drawing of *inferior lands* into production, the associated increase in the *cost of producing* corn, and the rise in *grain prices* were all features of English agriculture at the start of the 19th century and all found their precise reflection in Ricardo's theory of rent.

A second consequence of the advance in corn prices was a rapid rise in the ground rent that farmers paid to the landlords. From the 1770's up until the end of the war with France rental payments rose on average by 100% to 200%, and not infrequently by four or five times. In Scotland the total amount of ground rent in 1795 was £2,000,000; in 1825 it was £5,250,000. A farm in Essex which had been leased in 1793 at ten shillings an acre rented in 1812 [5] for fifty. The war, high prices, and bad harvests had made the landlords stupendously rich.

Safe in their barns these Sabine tillers sent
Their brethren out to battle—why? for rent! [6]

When Byron, the famous poet, hurled these indignant lines at the aristocracy he was expressing the sentiments of the most diverse sections of the population.

Indeed, dissatisfaction with high corn prices and with protective legislation on behalf of the gentry had spread throughout the country. The industrial bourgeoisie assumed the leadership of the movement against the *corn laws*. Industrialists remarked with dismay that the lion's share of the profits brought by England's industrialization were slipping right through their own hands into those of the land magnates. The industrialists' dream was to shower the entire world with cheap goods from their own factories; but for this *cheap hands* were necessary. The high price of corn made it impossible to lower money wages. Further, high corn prices undermined the *purchasing power* of the workers and urban petty bourgeoisie, thus reducing the domestic market for industrial products. Periods of poor harvests and high grain prices often coincided with severe trade and industrial crises.

The broad mass of *workers* suffered not simply from expensive corn, but also from the introduction of machinery, unemployment, and low wages. The early ideologists of the proletariat had already grasped that the root of these evils lay not in the corn laws, but in the capitalist system. Yet the propaganda of the first utopian socialists (Owen for example) affected but a narrow circle. The broad mass of workers still lent a sympathetic ear to the agitation against the corn laws. The first decades of 19th-century England were passed in an atmosphere of bitter struggle between the landowning class and the commercial and industrial bourgeoisie supported by the broad mass of workers and petty bourgeois. In 1815 the agrarians still held the upper hand, and the protective tariffs on corn were increased. In 1820 the London merchants presented their famous petition to Parliament, in which they demanded the introduction of free trade as the only means by which the products of England's factories could gain broad access to the world's markets. In 1822 the merchants of Manchester put the same demand in their own memorandum. Manchester, the centre of cotton textile production, had become the fortress of the partisans of free trade, who hence became known as the '*Manchester*' school. With the industrial crisis at the end of the 1830's the struggle for free trade took on greater dimensions. The Manchester chamber of commerce presented a petition to Parliament in which it explained that 'without the immediate repeal of the corn duties the ruin of factory industry [would be] inevitable, and that only the broad application of the principle of free trade [could] assure the future prosperity of industry and the peace of the country.' [7] The anti-Corn Law League, founded by Cobden and Bright, enlisted hundreds of thousands of supporters

and conducted a powerful agitation over the entire country. In 1846 the long decades of struggle finally ended in victory for the bourgeoisie: the *corn laws* were repealed, and England went definitively over to a system of *free trade*.

The bourgeoisie secured its victory only in the period following Ricardo's death, although the historic debate between the commercial-industrial bourgeoisie and the landlord class was already well alight during his lifetime. All Ricardo's literary activity took place in this atmosphere of struggle between social classes. The fundamental socio-economic phenomena of his day—the rapid growth of industry and the successes of machine production, the menacing rise in corn prices and ground rent, and the bourgeoisie's dissatisfaction with the corn laws—left a deep imprint on the whole of his theoretical system. In economic policy Ricardo stood as a leader of the industrial bourgeoisie: he demanded that the corn duties be repealed and free trade introduced. His theoretical system, for all its abstractness and apparent separation from the real economic conditions of his day, was in fact closely tied to them. Its two central components—the theory of value and the theory of distribution—both reflect the economic conditions of early 19th-century England. In his *labour theory of value* Ricardo summed up the many and varied factors which caused technical improvements and increases in labour productivity to lower the price of factory products. The extensive application of machinery had compelled Ricardo to ponder on the extent to which the use of machines (fixed capital) might modify the law of labour value. The raging struggle between the bourgeoisie and landowners and the more distantly perceptible battle between bourgeoisie and proletariat concentrated Ricardo's thoughts on to the *theory of distribution*. Ricardo made the impetuous rise in corn prices and ground rent the basis of his *theory of rent*. The grievous distress of the workers, notwithstanding rising nominal wages, found theoretical reflection in the Ricardian *theory of wages*. The struggle between the landowners and the bourgeoisie caused Ricardo to think in terms of an irreconcilable *conflict of interests* between these two classes: the idleness of the aristocracy and the rise in corn prices that were typical features of a capitalist economy were for him the main reason for the fall in profits and the primary threat to capital accumulation and the ability of the capitalist economy to grow [8]. Ricardo owes to his epoch both the strong and weak points of his theoretical system. Insofar as the English economy at the start of the 19th century had already managed to develop those features that are typical of a capitalist economy, Ricardo succeeded in

making theoretically ingenious generalizations that have entered permanently into economic science. Wherever he took transient or temporary contemporary phenomena to be inevitable characteristics of capitalist economy in general, he fell into errors and biases that later economic schools, and above all Marx's, were to correct.

- 1 A detailed and interesting study of technological change during the industrial revolution including the events Rubin is talking about here, is David Landes, *The Unbound Prometheus* (Cambridge University Press, 1969) Chapter 2 'The Industrial Revolution in Britain'
- 2 Translated from the Russian
- 3 Both quotations have been translated from the Russian
- 4 Translated from the Russian.
- 5 The text reads 1912 which is obviously a misprint.
- 6 The quotation is from Byron's poem *The Age of Bronze*
- 7 Translated from the Russian
- 8 A phrase is missing here from the Russian text. The passage from 'the idleness' to the end of this sentence is interpolated from the apparent meaning as indicated by what is printed in the Russian original and by Rubin's argument in later chapters.

CHAPTER TWENTY-SIX

Ricardo's Life

David Ricardo (1772-1823) was born in London into the family of a wealthy Jewish banker. By the age of fourteen Ricardo was assisting his father in his stock exchange operations, but a few years later he broke with his family when he was converted to Christianity [1]. He became an independent jobber on the stock exchange, where, thanks to his remarkable ability to foresee the price movements on securities, he amassed a huge fortune in just a few years. At the age of twenty-five Ricardo was already enjoying a reputation in London as a millionaire and famous banker.

Apparently, however, playing the market soon ceased to afford Ricardo any satisfaction: his spirit harboured a passionate thirst for knowledge. At twenty-five he abruptly altered his style of life, gave up speculating on the exchanges, purchased an estate, and devoted his time to self-education. At first he studied mathematics and natural science, set up his own laboratory and collected minerals. Two years later he was so impressed by Smith's book as to give himself wholly over to the study of economic questions, which could get quite a grip on the mind of a man familiar with the secrets of stock-jobbing.

At the beginning of the 19th century economic questions had once again become the subject of animated discussion in England. The long war with France had thrown English economic life into profound disarray. This disorder showed up particularly in the depreciation of England's currency (the bank notes issued by the Bank of England, whose convertibility into gold had been suspended during the war) and in the exorbitant rise in the *price of corn*. These were practical questions, which touched the vital interests of different social groups, and gave rise to tremendous discord. Nor was this an academic debate among students in the quiet of some study; it was accompanied by bitter polemics in Parliament and the press. Such a fierce conflict of opinions and interests prompted the modest Ricardo, who had little confidence in his own abilities, to embark upon a literary career. In 1809, some ten years after he had set about his study of economic matters, he published some articles and a pamphlet, *On the High Price of Bullion*, in which he gave an outline of his *quantity theory of*

money [2] He explained the depreciation of the bank notes by their excessive emission and demanded that a certain portion of them be withdrawn from circulation if the currency was to be brought back to health

In the years that followed Ricardo issued a number of short polemical works also dedicated to questions of monetary circulation. In 1815 he published *An Essay on the Influence of a Low Price of Corn on the Profits of Stock*. In this work Ricardo was already acting as a defender of *industrial capitalism* and had come to the conclusion that the interests of the landowning class conflicted with those of the other classes of society. At this time, as a letter of 1815 makes clear, Ricardo had no ambition to publish a work embracing the fundamental theoretical questions of economics. 'Thus you see', he wrote, 'that I have no other encouragement to pursue the study of Political Economy than the pleasure which the study itself affords me, for never shall I be so fortunate however correct my opinions may become as to produce a work which shall procure me fame and distinction' [3] However, just two years later, in 1817, influenced by the persistent advice of his friend, James Mill, Ricardo published the book that was to earn him immortal fame, his *Principles of Political Economy and Taxation*. Although most of the chapters in the book are devoted to discussions of practical questions, mainly taxation, the few theoretical chapters guaranteed Ricardo permanent fame as one of the great economists. His book marks the highest point that the Classical school was able to attain—after that it went through only agony and a period of decay.

Although Ricardo himself at one time said that no more than twenty-five men in the whole of England had understood his book, it nevertheless earned him tremendous fame among his contemporaries and made of its author the head of an entire school. Ricardo stood at the centre of the vital economic discussions of his day. He was in constant personal contact or in correspondence with all the outstanding economists of his day. Some of them became his closest disciples and followers (James Mill, McCulloch), the first apostles of the orthodox 'Ricardian' school. Yet even those of his opponents who created their own economic systems (Malthus, Say, Sismondi) could not fail to defer to his great intellect and scientific candour. Malthus, who was his constant opponent and a fierce defender of the landowning class, called the day Ricardo died the unhappiest day of his life.

Ricardo loved to hold domestic gatherings of friends and famous economists for uninhibited chats and discussions about topical economic subjects. These meetings of friends formed the basis of the

London *Political Economy Club*, which was founded in 1821 and stayed in existence for 25 years. The club's members were in the main practical people, merchants and industrialists, political figures; only a few were academic scholars. At its monthly meetings they discussed the most important questions of the day, the debates usually revolving around questions of monetary circulation and the duties on corn—questions that were uppermost in Ricardo's mind. Up to the day of his death, which came unexpectedly in 1823, Ricardo was the central figure in the club's meetings, the majority of whose members ardently defended—and did a great deal to implement—the ideas of *free trade*.

Ricardo successfully championed the ideas of *economic liberalism*—not only in his pamphlets and books, at gatherings of friends, and at meetings of the Political Economy Club, but also from the tribune of Parliament. Chosen as a member of Parliament in 1819, he delivered speeches, despite his shyness and dislike for oratory, during the debates on monetary circulation, parliamentary reform, etc., in which he declared himself in favour of bourgeois-democratic reforms (extension of the suffrage, the secret ballot). His teaching on *monetary circulation* had enormous influence both on the parliamentary commissions debating this issue and on subsequent English legislation.

Ricardo's literary and parliamentary declarations in defence of economic and political liberalism inevitably made him an object of attack, primarily from the representatives of the *landowning* class. They accused him of defending the narrow interests of the monied and industrial bourgeoisie, and even, on occasion, of having a personal interest in the passage of this or that measure. With unshakeable tranquility and dignity Ricardo repudiated these personal suspicions, and even refused to acknowledge himself as defending the interests of a single social class. Indeed, Ricardo was subjectively correct to see himself as a defender of 'true' economic principles and of the interests of all the 'people' (which he counterposed in one of his works to the interests of the aristocracy and the monarchy), since what he invariably championed was the need for the rapid development of the productive forces, which in his epoch could occur only in the form of capitalist economic development. The high duties on corn, the poor laws, the rule of the landowning oligarchy all retarded the growth of the productive forces, and thus Ricardo consistently came out against them. On the other hand, it is true that he never imagined that the growth of the productive forces might be possible in a form other than a capitalist economy, and so he rejected Owen's communist schemes

(on this see the following chapter)

Ricardo's horizons never extended beyond *capitalist* economy. Yet if he ardently defended capitalism's interests it was because his researches, being infused with the utmost scientific honesty and candour, led him to see it as the only form of economy that would provide sufficient scope for a powerful growth of the *productive forces* and the wealth of society as a whole. In Marx's words, 'Ricardo's conception is, on the whole, in the interests of the *industrial bourgeoisie*, only *because* and *in so far as*, their interests coincide with that of production or the productive development of human labour. Where the bourgeoisie comes into conflict with this, he is just as *ruthless* towards it as he is at other times towards the proletariat and the aristocracy. [4]

- 1 To the extent that Ricardo had any religious attachments at all these were with the Unitarians.
- 2 *On the High Price of Bullion. A Proof of the Depreciation of Bank Notes* (1810), in *The Works and Correspondence of David Ricardo*, edited by Piero Sraffa with the collaboration of M H Dobb, Volume III (Cambridge University Press 1951).
- 3 Ricardo, letter to Trower of 29 October 1815. in *Works* (Sraffa edition) Vol. VI (CUP, 1952), p. 315.
- 4 Marx *Theories of Surplus Value*, Part II (Progress Publishers English edition) p. 118 (Marx's italics).

CHAPTER TWENTY-SEVEN

The Philosophical and Methodological Bases of Ricardo's Theory

In the great historical contest between the landed aristocracy and the industrial bourgeoisie Ricardo stood decisively on the side of the latter. It would be a great mistake, however, to accept Held's statement that 'Ricardo's doctrine was dictated simply out of the money capitalist's hatred for the landlord class.' [1] In Ricardo's time the industrial bourgeoisie still played a progressive historical role, and its ideologues still felt themselves leaders of the entire 'people' in a struggle against the aristocracy and monarchy [2]

Ricardo was an ardent champion of the bourgeois capitalist order because he saw it as the best means for guaranteeing, 1) the greatest *individual happiness*, and 2) the maximum growth of the *productive forces*

Bourgeois economic science had already raised the demand for free competition and individual economic initiative in the 18th century. Both the Physiocrats and Smith consecrated this demand by making reference to the eternal, *natural right* of the individual. By the beginning of the 19th century the role of natural right as the bourgeoisie's main spiritual weapon in its struggle for a new order had played itself out. The foundations of the capitalist order had already been laid, and the greater its successes the more were the ideologists of the bourgeoisie themselves prepared to abandon their naïve faith in the impending realization of a 'natural order' of universal equality and brotherhood. The bitter disappointments of the French revolution, the desperate state of the labouring masses during the time of the industrial revolution, and the first portents of the budding struggle between the bourgeoisie and working class left little room for the illusions of yesteryear. From the beginning of the 19th century demands for equality and brotherhood alluding to the natural right of the individual were mostly coming from the mouths of the first defenders of the *proletariat*, the early utopian socialists. Henceforth,

the antithesis previously made between bourgeois natural right and feudal tradition became impossible and inadequate. The ideologists of the bourgeoisie were faced with a new and difficult problem: to justify the bourgeois order at one and the same time against both feudal tradition and the demands for natural equality being raised by the socialists. Called upon to solve this problem was the new philosophical system of 'utilitarianism' developed by Bentham, which gained great currency from the 1820's onwards. If the theory of natural right had served as philosophical basis for the doctrines of the Physiocrats and Smith, Ricardo and his closest disciples were fervent adherents of utilitarianism.

Although utilitarianism denied the doctrine of natural right, on one point it continued in the same direction: it gave definitive formulation to the *Weltanschauung* of individualism. For the Physiocrats the demand for individual freedom followed from the character of their ideal social system (the 'natural order' of society); in this sense society still had domination over the individual, in effect itself determining the degree of freedom that the latter was allowed. In the writings of Adam Smith the individual and society are equal entities, existing in complete harmony with one another: the 'invisible hand' of the creator ensures that they are in complete accord [3]. Finally, in the utilitarian system, society is completely subordinate to, and dissolved into the individual. Society is nothing but a *fictitious body*, a mechanical sum of the *individuals* who comprise it. In Bentham's words, 'the interest of the community is the sum of the interests of the several members who compose it. It is vain to talk of the interest of the community, without understanding what is the interest of the individual' [4]. 'The interest of individuals, it is said, ought to yield to the public interest. But what does that mean? Is not one individual as much a part of the public as another? *Individual* interests are the only *real interests*' [5]. What does this interest of the individual consist of? The enjoyment of pleasures and security from pains, i.e., to attain for himself the greatest benefit. The '*principle of utility*' forms the cornerstone of the entire utilitarian system (the name derives from the Latin *utilis*, or useful). To evaluate the utility of a given action we must sum up all its beneficial effects, on the one side, and all its harmful effects, on the other; we then deduct the sum of the pains from the sum of the pleasures (or vice versa) to obtain a balance that is either positive or negative [6]. By using this '*moral arithmetic*' [7] we know what actions will be capable of assuring the 'greatest happiness' for the individual.

By what means can we construct a bridge from the happiness of the

individual to the well-being of *society*? Since society is itself a mechanical sum of constituent individuals it follows that social well-being is nothing more than the result of *mechanically adding up* these individuals' happiness. The well-being of society means '*the greatest happiness for the greatest number*.' And since a sum increases only with increases in its components, social progress is possible only as a rise in the welfare or *happiness of the individual*. 'Everything that conforms to the utility or interest of the community increases the total welfare of the individuals who compose it.' [8] But how do we increase this general sum of individual welfares? Very simply: care for this should be left to the *individuals themselves*, since 'each is his own judge of what is useful for him' [9] 'Here we have a general rule: grant people the greatest possible freedom of action in all those circumstances where they can do harm to noone but themselves, since they themselves are the best judge of their own interests' [10] Thus the social ideal that Bentham, as founder of the utilitarian school, constructs out of the principle of utility is *maximum freedom of the individual and limitation of the state's functions* to the purely negative task of keeping its citizens from doing damage to one another. This system of *bourgeois individualism* is preferable to *feudalism* and the 'inconveniences of its useless burden' because it guarantees the individual the greatest possible freedom of action and hence also the opportunity to attain maximum happiness. It is preferable to *socialism* because the latter deprives the individual of the opportunity to attain the greatest utility or happiness through the agency of his own labour. 'When security and equality are in conflict, it will not do to hesitate a moment. Equality must yield. The establishment of perfect equality is a chimera; all we can do is to diminish inequality.' * While the thinkers of the 18th century had been filled with a magnanimous enthusiasm for universal equality and brotherhood, the voice of the sober bourgeois now declared equality a chimera. While in the 18th century the duty of the bourgeois order had been to realize the sacrosanct rights of the individual, it now faced a more modest task: to guarantee to each individual the freedom to select what was most profitable ('useful' or affording the 'greatest happiness') from amongst those undertakings left open to him by the social system as it was.

Ricardo became a philosophical adherent of utilitarianism via James Mill, a man who on economic questions had been Ricardo's pupil. Bentham had said, 'I was the spiritual father of Mill, and Mill

* This quotation, along with those preceding are taken from Bentham's works [The passage quoted here is from *The Theory of Legislation* p. 120—Ed.]

was the spiritual father of Ricardo: so that Ricardo was my spiritual grandson' [11] Like Bentham, Ricardo was firmly convinced that 'where there is free competition, the interests of the *individual* and that of the *community* are never at variance'*. The interest of society can reside nowhere but in the optimal realization of the interests of its constituent members. That which 'is less profitable to individuals [is] therefore also less profitable to the State' Ricardo believes it impossible for there to be employments 'which, while they are the most profitable to the individual, are not the most profitable to the State' [12] 'The pursuit of *individual advantage* is admirably connected with the *universal good of the whole*. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it [the pursuit of personal advantage—I.R.] distributes labour most effectively and most economically: while, by increasing the general mass of *productions*, it diffuses *general benefit*, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilized world' [13] In Ricardo's eyes, to give free reign to the principle of '*individual advantage*' (or, what is the same thing, to Bentham's 'principle of utility') is the best guarantee of increasing the 'general benefit', which consists of augmenting 'the general mass of products', i.e., developing the productive forces. Conversely one need only remove or impede the activity of the personal-interest principle for there to be an inevitable deterioration of the productive forces, a reduction in general welfare, and a decline in the total happiness of society's members. It was on this basis that Ricardo rejected Owen's projects to set up communist communities. 'Owen is himself a benevolent enthusiast, willing to make great sacrifices for a favorite object', wrote Ricardo in one of his letters. 'Can any reasonable person believe, with Owen, that a society, such as he projects, will flourish and produce more than has ever yet been produced by an equal number of men, if they are to be stimulated to exertion by a regard to community, instead of by a regard to their private interest? Is not the experience of ages against him?' [14]

The ideal society for Ricardo, therefore, is capitalism, where *competition between individuals*, each of whom is out to attain the greatest possible personal *advantage*, assures that there will be maximum growth of the productive forces. In this sense Ricardo was heir to the Physiocrats and Smith. Unlike his predecessors, however, he had

* This quotation, as with all ensuing ones, are taken from Ricardo's works. [The passage here is from *The High Price of Bullion, A Proof of the Depreciation of Bank Notes* in *Ricardo's Works* (Sraffa edition) Vol. III p. 56 (Rubin's italics)—Ed.]

before him a capitalist economy at a higher stage of development and was therefore able to formulate more correctly and more fully its characteristic economic laws. The Physiocrats had lived in a France that was still semi-feudal; Adam Smith had been part of the age of manufactories. Ricardo, because he was witness to the rapid growth of large-scale capitalist machine production, was better able to make note of its fundamental technical and socio-economic features.

Smith's theoretical horizons had been completely bounded by the technology of the manufactory. When he spoke about machinery he in essence understood it as the specialized instruments employed by the manufactory workers. It was Smith's assertion that 'in agriculture nature labours along with man', while in industry 'nature does nothing; man does all' [15]. Only the era of the manufactory, where production was based on manual labour, could have spawned such a naive conception of industry. With the progress of machine production and the advance of technology such a conception became clearly outmoded. 'Does nature do nothing for man in manufactures? Are the powers of wind and water, which move our machinery, and assist navigation, nothing? The pressure of the atmosphere and the elasticity of steam, which enable us to work the most stupendous engines—are they not the gifts of nature? to say nothing of the effects on matter of heat in softening and melting metals, of the decomposition of the atmosphere in the process of dyeing and fermentation. There is not a manufacture which can be mentioned, in which nature does not give her assistance to man, and give it too, generously and gratuitously.' [16] While Smith explains industrial progress almost exclusively by the development of the *division of labour*, Ricardo adduces such factors as 'the improvements in *machinery* the better division and distribution of labour and the increasing skill, both in science and art, of the producers' [17].

Ricardo expected the introduction of machinery to make products cheaper and to bring a rise in output. True enough, he did not close his eyes to the disastrous situation of the workers whom the machines had ousted. The defenders of capitalism argued that the introduction of machinery was incapable of causing even the slightest deterioration in the workers' condition since those displaced would immediately find employment in other branches of production. At first Ricardo, too, ascribed to this 'theory of compensation', but later on he acknowledged—with his great, and characteristic honesty and scientific candour—'that the substitution of machinery for human labour, is often very injurious to the interests of the class of labourers.' [18] This view

notwithstanding, Ricardo remained a fervent advocate of the introduction of machines as a necessary condition for the development of the productive forces. He rejected the petty-bourgeois utopianism of Sismondi, who wanted to reverse the wheel of history and go back to the patriarchal economy of independent petty producers (craftsmen and peasants) that had existed prior to large-scale machine production.

This rejection of the Smithian counterposition of agriculture to industry made it possible for Ricardo to overcome the *residua of Physiocratic ideas* in Smith. In starting out from the view that nature assists man in agriculture but not in industry Smith was assuming that agriculture (rather than industry) was where society could most profitably invest its capital. This view was understandable in the middle of the 18th century, when England was still feeding its population with its own grain and agriculture played the dominant role in the country's economy. Although at the start of the 19th century it still held this honoured position, and Ricardo was still unable to conceive of England's transformation into a onesidedly industrial state, he nevertheless maintained a firm course in favour of England's *industrialization*, even if this was to be at the expense of a curtailment in agriculture. Heated debates on this issue flared up between Malthus and Ricardo once the war with France had ended. The defenders of the landowning class, including Malthus, were demanding high import duties on corn so as to keep corn prices from falling and agriculture (which had been intensively developed during the war years under the impact of high grain prices) from being cut back. Malthus labelled as 'extravagant' schemes to turn England into an industrial state feeding on imported corn. Ricardo foresaw that it would be necessary to import cheap foreign corn and that *English capital would have to flow out of agriculture and into industry*. The prospect that 'the corn of Poland, and the raw cotton of Carolina, will be exchanged for the wares of Birmingham, and the muslins of Glasgow' [19] not only failed to frighten him—he hailed it. He saw the 'unusual quantity of capital drawn to agriculture' [20] as an abnormal phenomenon that had been created by the war and which was leading, as a result of its high costs of production, to excessively expensive corn. Ricardo welcomed the import of cheap foreign corn and a reduction in the capital invested in English agriculture: cheaper corn would lead, he thought, to a rise in profits and a tremendous flowering of the country's industrial life.

Thus, in Ricardo's constructs we have a country at a much higher stage of technical development than that described by Smith, one

that is rapidly proceeding towards *industrialization* by going through a feverish period of *introducing machinery*. Ricardo advances our understanding of capitalism's *social* characteristics noticeably less than Smith; yet, for all that, these acquire much sharper outlines with Ricardo than with the earlier economist, for whom a '*capitalist*' point of view is still able to coexist with a '*handicraft*' one: in his descriptions we often encounter, besides the capitalist economy, an economy of petty producers; the figures of the capitalist and farmer at times alternate with those of the craftsman and peasant. In Ricardo the social background to capitalist economy is far more *homogeneous*: to judge from his constructs of society we could well think that England's handicraftsmen, cottage labourers, and peasants had already completely disappeared by the beginning of the 19th century (when in fact they still existed, and in healthy numbers). The entire stage is occupied by *capitalists* (including farmers), *wage labourers*, and *landlords* (capitalist landlords, that is, renting their land to farmers). This is a '*pure*' or '*abstract*' capitalism, freed from the admixtures and debris of pre-capitalist forms of economy. Ricardo presupposes that the tendencies inherent in a capitalist economy act with full force, encountering no delays along their way. If Smith is prepared to describe in great detail the innumerable obstacles that interfere with the equalization of the rate of profit and wages in different branches of production, Ricardo cites them merely in passing.

Ricardo conceives of capitalist economy as an enormous mechanism whose error-free functioning is ensured by the capitalists' desire for maximum profit; this desire results in the equalization of the rate of profit in all branches of production (differences in the rate of profit being maintained only so far as it is necessary to balance out the advantages held by some branches of production over others). *The striving to obtain the greatest profit* is the basic, motive force of capitalist economy, and *the law of equalization of the rate of profit* is its basic law. By grasping the central role of this law Ricardo once again proves himself superior to Smith. It is true that Smith had already presented a magnificent picture depicting how labour and capital pour from some branches of production into others consequent upon deviations in the market prices of commodities from their '*natural prices*' (values). Yet it was still not clear to Smith that the capitalist entrepreneur plays the central role in this process of redistributing the productive forces. Smith still thought that the entrepreneur was joined in his function of prime mover in this process by the wage-labourers.

and landowners. Ricardo correctly identified the *capitalist entrepreneur* as the prime mover in this redistribution of the productive forces between branches. 'This restless desire on the part of all the employers of stock, to quit a less profitable for a more advantageous business, has a strong tendency to equalize the rate of profits of all '[21] The flow of capital out of less profitable branches and into those that are more lucrative (in consequence of the greater credit granted to the latter by the banks and the expansion of their production) rectifies imbalances in the supply and demand of commodities. The movement of the entire capitalist economy is subordinated to the law of an equal rate of profit, this 'principle which apportions capital to each trade in the precise amount that it is required '[22]

Ricardo has thus 'purified' the capitalist economy from its pre-capitalist admixtures and allotted the central role in this 'pure' capitalism to the capitalist. Ricardo studies each tendency within capitalist economy in its 'pure' or 'isolated' form, on the presupposition that the force of its action will be undiluted by counteracting tendencies. This is Ricardo's 'abstract' method which provoked such censure from his opponents (especially from economists of the historical school). Often Ricardo's 'abstract' or 'deductive' method is counterposed to the 'experimental' or 'inductive' method of Smith, which is deemed more correct. The contrast is itself false. Wherever Smith is seeking to discover the laws or tendencies of economic phenomena he, too, utilized the method of isolation and abstract analysis, without which any theoretical study of complex social phenomena would be impossible. With Smith, however, the train of his theoretical analysis is broken (and at times distorted) by a superfluity of descriptive and historical material. In Ricardo the sturdy skeleton of *theoretical* analysis is freed of the living flesh of concrete material culled from real life. An iron chain of syllogisms rapidly and inexorably carries the reader forward, supported only by hypothetical examples (usually beginning with the words, 'let us suppose that . . .') [23] and arithmetical calculations. Instead of Smith's vivid and captivating descriptions, the reader can look forward to an abstract, dry exposition, the difficulty of which is made all the greater by the fact that he cannot for a minute let slip from view the multitude of premises that the author either explicitly or tacitly assumes. Ricardo's method of abstract analysis is precisely what gives his theoretical thinking its consistency and intrepidity and endows him with the power to trace the workings of each tendency of economic phenomena

through to its very end. This method allowed Ricardo to overcome Smith's innumerable contradictions and to construct a logically more integral and cohesive theory of value and distribution.

If Ricardo is to be reproached it is not for having applied an abstract method, but for having forgot that the theoretical positions arrived at by using it are *contingent*. Above all Ricardo, as with the other representatives of the Classical school, lost sight of the one basic historical condition for the correctness of all theoretical economic propositions: the existence of a determinate *social form of economy* (i.e., capitalism). That this social form of economy should appear to Ricardo as given and intelligible in its own right is a feature that he shared in common with all the ideologists of the young bourgeoisie, who in place of the old feudal system had posited a new social order that they saw as natural, rational, and eternal. 'The real laws of political economy do not change', wrote Ricardo. It is therefore understandable that even this thinker who, by differentiating value from riches and who, with his doctrines of labour value and rent did so much to transform political economy into a social science, readily sought the ultimate explanation for socio-economic phenomena in the action of 'immutable' *natural* laws (the biological law of population and the physico-chemical law of the declining fertility of the soil).

Besides ignoring the basic socio-historical precondition to his investigation, Ricardo often forgot, or lost sight of those *partial* premises that formed the basis of his theoretical propositions. He forgot that every economic tendency only fully manifests itself in the *absence* of counteracting tendencies, or as we say, 'all other conditions being equal'. By underestimating the multitude of tendencies that intermingle with one another in real life, Ricardo was inclined to explain real phenomena, created by *many* different factors, in terms of the activity of *a single* abstract law. One such abstract Ricardian law, for example, states that when farmers begin to cultivate inferior lands this will raise the value of a unit of corn (providing technique and other conditions remain the same). The author then hastens to apply this law to actual situations, declaring that the real rise in the price of corn is explained by the fact that farmers are now cultivating inferior land. Ricardo takes another such abstract law—that a general rise in wages necessarily lowers the rate of profit (all other things being equal) and rashly (and erroneously) uses it to explain the historical fact of the fall in the rate of profit. This tendency to attribute *unconditional* validity to *conditional* conclusions and to detect the immediate activity of 'pure' laws in *concrete*, historical phenomena led Ricardo into a

number of errors. These mistakes did not, however, prevent him from grasping (precisely through using the method of abstraction) the basic tendencies whose *continuous*, though at times concealed *operation* lie at the very *basis of capitalist economy*. It is for this reason that Ricardo's theoretical constructs, once altered and corrected, retain their validity even today, and we are justified in acknowledging his work as one of the great monuments of human thought.

1 Adolf Held a German bourgeois economist who lived from 1844-1880

2 In general, Rubin's discussion of Ricardo's views on the conflict between the landlords and the other classes of society requires some qualification, especially in light of the way Rubin presents Ricardo's theory of rent (Chapter Twenty Nine). Ricardo made a number of statements similar to this passage from *An Essay on the Influence of a Low Price of Corn on the Profits of Stock*: 'It follows then, that the interest of the landlord is always opposed to the interest of every other class in the community. His situation is never so prosperous, as when food is scarce and dear; whereas all other persons are greatly benefited by procuring food cheap' [Ricardo *Works* Sraffa edition Vol IV (CUP 1951) p. 21]. In the very same paragraph and the discussion following however Ricardo immediately qualifies the context in which he makes this statement: 'High rent and low profits for they invariably accompany each other. *ought never to be the subject of complaint if they are the effect of the natural course of things*'.

'They are the most unequivocal proofs of wealth and prosperity and of an abundant population, compared with the fertility of the soil. The general profits of stock depend wholly on the profits of the last portion of capital employed on the land; if therefore, landlords were to relinquish the whole of their rents they would neither raise the general profits of stock, nor lower the price of corn to the consumer. It would have no other effect as Mr Malthus has observed than to enable those farmers whose lands now pay a rent to live like gentlemen.' (*ibid* pp 21-22 *our emphasis*)

The *Essay on the Low Price of Corn* was a comparatively early pamphlet (1815). In his correspondence following publication of the *Principles* Ricardo clarified his position still further. 'He [Malthus] has not acted quite fairly by me in his remarks on that passage in my book which says that the interest of the landlord is opposed to that of the rest of the community. I meant no invidious reflection on landlords—their rent is the effect of circumstances over which they have no control, excepting indeed as they are the lawmakers, and lay restrictions on the importation of corn.' [Letter of 2 May 1820 to McCulloch in Sraffa's edition of the *Works*, Vol VIII (CUP 1952) p. 182; *our emphasis*]. In a letter of 21 July that same year to Irower, Ricardo elaborated still further: 'He [Malthus] represents me as holding the landlords up to reproach because I have said that their interests are opposed to those of the rest of the community, and that the rise of their rents are at the expence of the gains of the other classes. The whole tenor of my book shews how I mean to apply those observations. I have said that the community would not benefit if the landlords gave up all their rent—such a sacrifice would not make corn cheaper but would only benefit the farmers.—Does not this shew that I do not consider landlords as enemies to the public good? They are in possession of machines of various productive powers and it is their interest that the least

productive machine should be called into action—such is not the interest of the public—they [i.e. the public—Ed.] must desire to employ the foreign greater productive machine rather than the English productive one Mr M charges me too with denying the benefits of improvements in Agriculture to Landlords. I do not acknowledge the justice of this charge. I have more than once said what is obvious that they must ultimately benefit by the land becoming more productive

I contend for free trade in corn on the ground that while trade is free and corn cheap, profits will not fall however great be the accumulation of capital If you confine yourself to the resources of your own soil I say, rent will in time absorb the greatest part of that produce which remains after paying wages, and consequently profits will be low' (*Ibid.* Vol VIII. pp 207-208; Ricardo's italics)

3 See Rubin's discussion in Chapter I twenty. above. especially note 9 p 176.

4 Jeremy Bentham. *The Principles of Morals and Legislation* (New York Hafner, 1965) p 3.

5 Bentham *The Theory of Legislation* edited by C K Ogden (London Kegan Paul, Trench Trubner & Co. 1931) p 144 Rubin's italics.

6 'Sum up all the values of all the pleasures on the one side and those of all the pains on the other The balance, if it be on the side of pleasure, will give the good tendency of the act upon the whole, with respect to the interests of that individual person; if on the side of pain the bad tendency of it upon the whole' (*Principles of Morals and Legislation*, p. 31; Bentham's italics)

It is worth at this point recalling Marx's assessment of Bentham 'Bentham is a purely English phenomenon [I]n no time and in no country has the most homespun manufacturer of commonplaces ever strutted about in so self-satisfied a way The principle of utility was no discovery made by Bentham He simply reproduced in his dull way what Helvétius and other Frenchmen had said with wit and ingenuity in the eighteenth century. [H]e that would judge all human acts, movements, relations etc. according to the principle of utility would first have to deal with human nature in general and then with human nature as historically modified in each epoch Bentham does not trouble himself with this With the driest naïveté he assumes that the modern petty bourgeois, especially the English petty bourgeois is the normal man Whatever is useful to this peculiar kind of normal man, and to his world is useful in and for itself This is the kind of rubbish with which the brave fellow, with his motto "nulla dies sine linea" [no day without its line] has piled up mountains of books If I had the courage of my friend Heinrich Heine, I should call Mr Jeremy a genius in the way of bourgeois stupidity *Capital*, Volume I (Penguin edition), pp 758-59, fn

7 The expression is from *The Theory of Legislation* A similar concept which he frequently used is that of a hedonistic calculus'

8 Translated from the Russian

9 Translated from the Russian Now as there is no man who is so sure of being inclined on all occasions to promote your happiness as you yourself are so neither is there any man who upon the whole can have had so good opportunities as you must have had of knowing what is most conducive to that purpose For who should know so well as you do what it is that gives you pain or pleasure? (*Principles of Morals and Legislation* p 267; Bentham's italics)

10 Translated from the Russian.

11 Cited by Sraffa in his introduction to Volume VI of Ricardo's *Works* p. xxviii fn

12 The two quotations are both from Ricardo's *On the Principles of Political Economy and Taxation* Volume I of the Sraffa edition of the *Works* (CUP 1951) pp 349-50 fn

- 13 *Principles*, pp 133-34 Rubin's italics
 - 14 Letter to Irower 8 July 1819, in *Works* (Sraffa edition) Vol VIII p 46
 - 15 Smith, *Wealth of Nations* Book II Ch 5 pp 363-64 See above p 201
 - 16 *Principles*, p. 76, fn
 - 17 *Ibid* p 94, Rubin's italics.
 - 18 *Ibid* p. 388. 'It is incumbent on me to declare my opinion on this question [the effect of machinery on each of the different classes in society], because they have on further reflection undergone a considerable change; and although I am not aware that I have ever published any thing respecting machinery which it is necessary for me to retract yet I have in other ways given my support to doctrines which I now think erroneous
- 'Ever since I first turned my attention to questions of political economy, I have been of opinion, that such an application of machinery to any branch of production, as should have the effect of saving labour, was a general good accompanied only with that portion of inconvenience which in most cases attends the removal of capital and labour from one employment to another. The class of labourers also, I thought, was equally benefited by the use of machinery, as they would have the means of buying more commodities with the same money wages, and I thought that no reduction of wages would take place, because the capitalist would have the power of demanding and employing the same quantity of labour as before, although he might be under the necessity of employing it in the production of a new or at any rate of a different commodity. As it appeared to me that there would be the same demand for labour as before, and that wages would be no lower I thought that the labouring class would equally with the other classes, participate in the advantage, from the general cheapness of commodities arising from the use of machinery
- 'These were my opinions and they continue unaltered, as far as regards the landlord and the capitalist; but I am convinced, that the substitution of machinery for human labour is often very injurious to the interests of the class of labourers
- 'My mistake arose from the supposition that whenever the net income of a society increased its gross income would also increase; I now however see reason to be satisfied that the one fund, from which landlords and capitalists derive their revenue may increase, while the other, that upon which the labouring class mainly depend may diminish, and therefore it follows, if I am right that the same cause which may increase the net revenue of the country may at the same time render the population redundant, and deteriorate the condition of the labourer' *Principles*, pp 386-88
- 19 *Ibid*, p 267, fn The passage is not, in fact Ricardo's but is quoted by him from an article by McCulloch in the *Encyclopaedia Britannica*
- 20 *Ibid*, p 266
- 21 *Ibid* p 88
- 22 *Ibid* p 90
- 23 It is interesting that Gramsci made an identical observation about Ricardo's contribution to Marx's analytical method: 'In order to establish the historical origin of the philosophy of praxis it will be necessary to study the conception of economic laws put forward by David Ricardo. It is a matter of realising that Ricardo was important in the foundation of the philosophy of praxis not only for the concept of "value" in economics, but was also "philosophically important and has suggested a way of thinking and intuiting

history and life. The method of supposing that . . . of the premiss that gives a certain conclusion, should it seem to me, be identified as one of the starting points (one of the intellectual stimuli) of the philosophical experience of the philosophy of praxis. It is worth finding out if Ricardo has ever been studied from this point of view. Gramsci. *Selections From the Prison Notebooks* (London: Lawrence and Wishart 1971), p. 412

CHAPTER TWENTY-EIGHT

The Theory of Value

1. Labour Value

Smith, as we know, had left behind a number of unresolved problems and contradictions (see chapter Twenty-two above). Let us briefly recall the most important:

1) Smith's theory suffered from a methodological dualism in the very way that he posed the problem: he confused the *measure* of value with the causes of *quantitative changes* in value.

2) Because of this he confused the labour *expended* on the production of a given product with the labour that that product *will purchase* in the course of exchange.

3) Smith's attention focused sometimes upon the *objective* quantity of labour expended and at others upon the *subjective* assessment of the efforts and exertions that go into it.

4) Smith confused the labour *embodied* in a particular commodity with *living labour* as a commodity, i.e., with labour power.

5) Smith came to *deny* that the law of labour value operates in a *capitalist* economy (in which labour nevertheless retains its function as a measure of value).

6) Together with a correct point of view, which sees the *value* of a product as the primary magnitude which then resolves itself into separate *revenues* (wages, profit, and rent), Smith sometimes mistakenly derives value from *revenue*.

It is fair to say that on each of these questions Ricardo adopted the correct standpoint and did away with Smith's contradictions. It must be added, however, that he worked through only the first three of these problems to a successful completion. As for the rest, although his stance was formally correct and he appeared on the surface to have eliminated Smith's inconsistencies, he was unable to genuinely resolve Smith's underlying difficulties and contradictions.

Above all, Ricardo decisively rejected any and all attempts to find an *invariable measure* of value, returning time and again to show that such a measure could not be found. The *method* that Ricardo consistently applied to the theory of value is that of the *scientific study of causality*, which the Classical school did so much to establish as

part of political economy Ricardo was looking for the *causes of quantitative changes* in the value of products, and wished to formulate the laws of those changes. His ultimate aim was 'to determine the laws which regulate the distribution' of products between the different social classes [1] To do this, however, he first had to study the laws governing changes in the value of these products

By posing the problem unambiguously in terms of scientific causality, Ricardo frees himself from the contradictions that befell Smith when he was defining the *concept of labour*. Ricardo starts out his work with a critique of the way Smith confused 'labour expended' with 'labour purchased', a question that he returns to in other chapters. Ricardo consistently bases his entire investigation upon the concept of the labour expended on a commodity's production, and sees changes in the quantity of this labour as the constant and most important reason for quantitative fluctuations in value. [2]

In this sense Ricardo makes the monistic principle of *labour value* the foundation of his theory (he makes certain exceptions to this, which we will discuss below in Section 3 of this chapter). Like Smith, Ricardo at the very outset excludes utility, or *use value* from the field of his enquiry, allocating to it a role as a *condition* of a product's exchange value. It is true that he talks here of 'two sources' of exchange value: the *scarcity* of articles and the quantity of *labour* expended on their production; this has led some scholars to speak of a dualism in his theory as well. This view is mistaken, since scarcity determines the value (or more accurately, the price) only of individual articles not subject to reproduction. Ricardo, however, is studying the process of production and the laws governing the value of products that are *reproduced*—and their value is determined by the quantity of *expended labour*. What is more, Ricardo shows the genuine maturity of his thought when he limits his investigation to 'such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint' [3] 'This in fact means that the full development of the law of value presupposes a society in which large-scale industrial production and free competition obtain, in other words, modern bourgeois society'*. In Chapter IV of his book Ricardo reveals this same clear understanding that the essential premise of the law of labour value is the existence of *free competition* between producers.

*Marx, *A Contribution to the Critique of Political Economy* [Progress Publishers edition London: Lawrence & Wishart 1970 p 60].

(There he shows that any deviation between market prices and 'natural price' (value) is eliminated by capital flowing out of certain branches of industry into others * If Ricardo is to be faulted, it is not for having made free competition (and hence the possibility of the reproduction of products) his starting point, but, to the contrary, for having grasped with insufficient clarity the social and historical conditions of the emergence of free competition and for having assumed these to be present even in the primitive world of hunters and fishermen.

Thus the value of products subject to reproduction is determined by the quantity of labour expended on their production. On analysis, this formula raises a number of questions: 1) when examining expended labour, do we do so from its *objective* or its *subjective* aspect; 2) do we take only the labour *directly* expended on a product's manufacture, or do we include the labour previously expended on manufacturing the *means of production* used in its production; 3) do we consider only the *relative*, or the *absolute* quantity of expended labour; 4) is the value of a commodity determined by the quantity of labour *actually* expended on its manufacture, or by the quantity of labour that is socially *necessary*?

As to the *first* of these questions, it should be noted that Ricardo rigorously adopts the *objective* point of view, doing away once and for all with the question of the individual's subjective assessment of the efforts that go into his labours (here again showing his superiority over Smith) ** In receiving the products of labour the capitalist market shows scant regard for the personal vicissitudes of the producers who stand behind them. These impersonal, inexorable laws of market competition find reflection in Ricardo's system, which is so pervasively objective as to verge on detachment.

To the *second* of these questions Ricardo dedicated a special section --Section III of chapter I. Its heading maintains 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 '[4] Implements, tools, and machinery *transfer* their value (either wholly or, where they depreciate only slowly, in part) to the product in whose manufacture they assist, but in no way do they *create* any new value. At the beginning of the 19th century, economists such as Say and Lauderdale, who were enraptured with the high productivity of machines, attributed the

* Here he even identifies the mechanism (expansion or contraction of the credit accorded a given branch) by which this expansion or contraction of production takes place.

** See the third of Smith's contradictions enumerated at the start of this chapter.

ability to create new value, the source of capitalist profits, to the machines themselves. Ricardo understood perfectly well that machines and the forces of nature which they set in motion, though they may raise the technical efficiency of labour and thereby augment the quantity of *use* values that this labour can manufacture per unit of time, nevertheless create no *exchange* value. Machines will only transfer their own value to the product 'but these natural agents, though they add greatly to *value in use*, never add exchangeable value, of which M. Say is speaking, to a commodity: as soon as by the aid of machinery, or by the knowledge of natural philosophy, you oblige natural agents to do the work which was before done by man, the exchangeable value of such work falls accordingly' [5] By making a sharp distinction between 'riches' (use value) and 'value' Ricardo revealed the absurdity of the theory that *nature* creates value—a theory developed with greatest consistency by the Physiocrats and carried over by Smith in his theory of the exceptional productivity of agricultural labour.

On the *third* question, the view is often expressed that Ricardo, because he was concerned only with the *relative* value of different commodities and with the *relative* quantities of labour expended on their production, ignored the problem of '*absolute*' value. Indeed, Ricardo does study the problem of value primarily from its quantitative aspect and is looking to find the causes of *quantitative changes* in the value of products. If the relative value of two products A and B is expressed by the proportion 5:1, Ricardo accepts this fact as given and spares it no further consideration. A phenomenon holds his attention when he can see in it indications of change; for example, when the above-mentioned proportion of exchange gives way to a new one of 6:1. This does not, however, mean that Ricardo confines himself simply to observable alterations in the relative values of two commodities or in the relative amounts of labour required for their production. If the relative value of two commodities changes, he asks himself whether this is because the '*real*' ('actual', 'positive') value of commodity A has risen, or because the '*real*' value of commodity B has fallen? A change in a commodity's '*real*' value is for Ricardo the result of changes in the quantity of labour needed to produce it. 'Labour is a common measure, by which their real as well as their relative value may be estimated' [6] Ricardo is here affirming that his theory is not to be restricted simply to the study of the relative value of commodities.

The last question relates to the attributes of *value-forming labour*

Marx accorded this question a great deal of attention, characterizing this labour as *social, abstract, simple*, and *socially necessary*. Ricardo, given his over-riding concern for the quantitative side of value, devoted his attention to those aspects of labour which influence the magnitude of value. Thus we find Ricardo commenting upon both *skilled* and *socially necessary* labour.

Ricardo, following Smith, acknowledges that one hour of *skilled* labour, e.g., that of a watch-maker, can create twice the value of one hour's labour by a spinner. This inequality is to be explained by 'the ingenuity, skill, or time necessary for the acquirement of one species of manual dexterity more than another.' The fact that this is so does not, in Ricardo's view, invalidate the law of labour value. Ricardo assumes that once the scale between these two types of labour (here taken at 2:1) becomes fixed it will show almost *no variation* over time. Once this is so the only change that can occur in the relative value of the two given products is that produced by changes in the relative *quantities of labour* necessary to their production.

Similarly we find in Ricardo a concept—albeit not fully developed—of *socially necessary* labour. Value is determined by the labour *necessary* for production. In his theory of rent Ricardo derives his famous law that the value of products is regulated not by the labour expended by the given individual producer, but 'by the *greater* quantity of labour necessarily bestowed on their production' by producers working under the most unfavourable circumstances [7]. Where Ricardo went wrong was to have derived this law from differences in the natural conditions of agricultural production and then advanced it as a general law applicable to all situations and to all products, be they from agriculture or industry. Marx rectified Ricardo's error here with his own theory of *average* socially necessary labour.

Ricardo contrasted his own labour theory of value to others which attempted to explain the magnitude of a product's value by the extent of its utility or by the relationship between supply and demand. He was scathingly critical of Say's theory of *utility*: 'When I give 2,000 times more cloth for a pound of gold than I give for a pound of iron, does it prove that I attach 2,000 times more utility to gold than I do to iron? certainly not; it proves only as admitted by M. Say, that the cost of production of gold is 2,000 times greater than the cost of production of iron. If the cost of production of the two metals were the same, I should give the same price for them; but if utility were the measure of value, it is probable I should give more for the iron' [8].

Ricardo rejected the vapid theory of *supply and demand* no less

decisively: 'It is the cost of production which must ultimately regulate the price of commodities, and not, as has been often said, the proportion between the supply and demand: the proportion between supply and demand may, indeed, for a time, affect the market value of a commodity, until it is supplied in greater or less abundance, according as the demand may have increased or diminished; but this effect will be only of temporary duration. Diminish the cost of production of hats, and their price will ultimately fall to their new natural price, although the demand should be doubled, trebled, or quadrupled.' [9]

To judge from these quotations one might think that Ricardo subscribed to a theory of *production costs*. This is not so. The vulgar theory of production costs holds that a rise in wages will automatically call forth a rise in the product's value. Ricardo expressed his dissent from this view in the very first words of his book: 'The value of a commodity 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.' [10] Although there were occasions when Ricardo failed to properly differentiate between costs of production and outlays of labour, his entire system is geared towards establishing the law of labour value and surmounting the theory of production costs which Smith, owing to his own inconsistencies, had fallen prey to (see sections 2 and 3 of this chapter).

Thus we can see that Ricardo contributed greatly towards improving the theory of value. He freed the idea of labour value from the wealth of contradictions that we find in Smith. Ricardo fundamentally reformed the *quantitative* side of the theory of value. He discarded the search for a constant measure of value—that deceptive mirage that economic thinkers had been pursuing from Petty to Smith—and presented a doctrine on how *quantitative changes in the value* of products are *causally dependent* on changes in the *quantity of labour expended on their production*. Ricardo sees the development of the *productivity of labour* as the ultimate cause behind changes in the value of commodities: but more than that, he is also looking in this direction to find the key to the riddle of how the different branches of production (agriculture and industry) and the different social classes (landlords, capitalists and workers) inter-relate with one another. Ricardo explained the progressive *cheapening* of industrial manufactures and the progressive *rise in price* of agricultural produce—both characteristic phenomena of early 19th century England—in terms of the workings of one and the same *law of labour value*. The value

of industrial wares falls as a result of *technical progress*—the introduction of machinery and rising productivity of labour. The rise in value of agricultural produce is accounted for by the greater outlays of labour needed for its production, occasioned in turn by the increasing cultivation of *inferior land*. This downward trend in the value of industrial products and upward movement in the value of agricultural produce will provide the key to understanding the tendencies behind the distribution of the nation's revenue between *classes*. The rise in corn prices, which results from poor land being brought under cultivation, brings in its train a sizable increase in *ground rent*, and hence also a simultaneous need to raise *money wages* (real wages remaining unchanged, however). This rise in wages inevitably provokes a *fall in the rate of profit*. In this fashion Ricardo derives his entire theory of distribution *from the law of labour value*.

While Ricardo's analysis of value's *quantitative side* represented an enormous advance over that of Smith, the *qualitative* or *social* dimensions of value remained outside his field of vision. Here we find the achilles heel of a theory whose horizons fail to extend beyond those of capitalist economy. Ricardo takes phenomena that belong to a specific form of economy and ascribes them to any economy. The *social forms* that things acquire inside the context of determinate production relations between people are taken by Ricardo as *properties of things in themselves*. He does not doubt that each and every product of labour possesses 'value'. It never occurs to him that value is a specific social form, which the product of labour acquires only when social labour is organized in a definite social form. Changes in the magnitude of value of products are conditional upon changes in the quantity of labour necessary for their production. This is Ricardo's basic law. His attention is riveted to the quantitative side of phenomena, upon the '*magnitude of value*' and the '*quantity of labour*'. He evinces no concern for the qualitative or social 'form of value', which is nothing but the material expression of social and production relations between people as independent commodity producers. Nor does Ricardo show any interest in the qualitative or social form in which labour is organized: he provides us with no explanation as to whether he is talking about labour as a technical factor of production (*concrete labour*), or about social labour organized as an aggregation of independent, private economic units connected to each other through the generalized exchange of the products of their labour (*abstract labour*). Certainly, we find in Ricardo the embryonic shoots of a theory of skilled and socially necessary labour, but it was left to

Marx to develop the theory of both socially abstract labour and the social 'form of value' * Ricardo's great reform of the theory of value affected only its *quantitative* aspect. To him the existing social (i.e., capitalist) form of economic phenomena was given in advance, was already known and therefore required no analysis. As to the *qualitative* side of value, only a thinker who had taken as his object of enquiry the social form of *economy* (i.e., production relations between people), the social *form of labour*, and the social 'form of value' could reform that aspect of the theory. Such a thinker was Marx.

The failure of Ricardo to recognize that the social form of an economy is historically conditioned did him little harm so long as he restricted his investigation to those phenomena that corresponded to the *existing* production relations between people (for example, to the law of labour value of commodities, which is premised upon production relations between people as commodity producers). But as soon as Ricardo passed onto the exchange of capital for labour power (an exchange predicated upon production relations between people as capitalists and wage labourers) or to the exchange of products produced by capitals of different organic compositions (an exchange which presupposes production relations between capitalists in different branches of production), his lack of a sociological method led him into the most basic analytical errors, as we shall see below.

2. Capital and Surplus Value

Ricardo's inability to grasp the social nature of value as an expression of the production relations between people created enormous difficulties for him even in his theory of labour value; when it came to his theory of *capital and surplus value* the difficulties only increased. Nevertheless, Ricardo did improve upon the existing theory of surplus value, ridding the quantitative analysis of these phenomena of a number of the mistakes that had been present in Smith's account.

Smith's theory of value came to ruin, as we know, when it moved from petty commodity production to capitalist production. The very fact that a commodity (as capital) could exchange for a greater

* This disregard for the form of value led Ricardo, as it did the other representatives of the Classical school, to misapprehend the social function of *money*. Ricardo subscribed to a 'quantity' theory of money and, apart from his doctrine on the movement of precious metals between countries, added nothing new in principle to what Hume had already formulated (see Chapter Eight on Hume above).

quantity of labour (labour power) than was embodied in it appeared to Smith as a violation of the law of labour value (see Chapter Twenty-Two above). Smith's only recourse was to declare that the law of labour value ceased to operate with the appearance of capital (profit) and the private ownership of land (rent).

Ricardo directed his entire efforts to showing that the law of labour value could operate even where there is *profit and rent*. But surely the working of this law is nullified by the fact that the value of a product (corn) is sufficient to cover not simply the remuneration of labour (wages) and the capitalist's profit, but also to yield an additional margin (*rent*) originating, as it would appear, not in labour but in the forces of nature? Not at all replies Ricardo in his theory of rent. The value of corn is determined by the quantity of labour needed to produce it on land of the most inferior quality. The value of corn produced on such land divides up only into wages and profit. The better lands receive a differential rent, comprised not of a mark up on top of the value of the commodity, but only of the difference between the labour value of the corn produced on better land and its social labour value as determined by the conditions of production on lands of the poorest quality. Rent is not a component part of price. By taking this position Ricardo simplified the entire problem of the relationship between value and revenues (we will have more to say about this in Chapter Twenty-Nine) such that it merely remained to explain the relationship between wages and profit.

Let us continue: the value of the product is sufficient not only to remunerate the labour expended on its production but also to yield a *profit* over and above this—surely this must invalidate the law of value as well? Surely the fact that the value of the product breaks down into wages and profit must conflict with a law which states that the product's value is determined only by the quantity of labour expended on its production? To resolve this problem in full one would have to discover the laws behind the exchange of capital for living labour (labour power), an exchange premised on production relations between capitalists and wage labourers. But Ricardo's thinking was, as we know, a long way from investigating the production relations between people. The social attributes of capital, on the one hand, and of labour power (wage labour), on the other, are simply missing. For Ricardo *capital and labour* confront one another as different *material* elements of production. Ricardo defines capital in *material-technical* terms, as 'that part of the wealth of a country which is employed in production, and consists of food, clothing, tools, raw materials, machinery, &c necessary

to give effect to labour.'* *Capital*, then, is means of production, or 'accumulated labour,' so that even the primitive hunter possesses some capital. Ricardo turns the confrontation between *capital and labour power* from a conflict between *social classes* into a *material-technical* counter-position of 'accumulated' labour to 'immediate' labour. Hence capital has a *dual* function in Ricardo's arguments. On the one hand, the emergence of capital (in the sense of means of production) does not in the least invalidate the law of labour value: the value of the means of production (machinery, and the like) is simply *transferred* to the product that they help to manufacture. On the other hand, the value of products contains not simply the previously existing 'accumulated' value of the machinery and other means of production, which is reproduced on the same scale as before, but an *additional* margin of determinate size in the form of profit. Where does this *profit*, or *surplus value* come from? Ricardo provides no clear answer to this question.

To reveal the laws which govern the exchange of embodied labour (as capital) for living labour (as labour power) we must understand that, in addition to the production relations that exist between people as commodity producers, there appears in society a new, more complex type of *production relation*: that between capitalists and wage labourers. However, the method of distinguishing and gradually studying the different forms of production relations between people was alien to the Classical economists. Smith had come to conclude that the exchange of capital for labour** overturns the laws by which commodities exchange for one another. Ricardo was able to avoid this conclusion only because he studiously delimited these two types of exchange. Feeling powerless to explain the exchange of *capital for labour* in a way which would be consistent with the law by which commodity is exchanged for *commodity*, he confined himself to a more modest task: to demonstrate that the laws governing the mutual exchange of commodities (i.e., the law of labour value) is not abolished by the fact that capital exchanges for labour.

Let us suppose, says Ricardo, that a hunter expends the same quantity of labour on hunting a deer as does a fisherman in catching two

Following Smith's example Ricardo divides capital into *fixed* and *circulating* portions, differentiating them according to their durability. By circulating capital Ricardo usually has in mind the capital which is laid out on *hiring* workers ('variable capital' in Marx's terminology) [The passage quoted here is from the *Principles* (Sraffa edition) p. 95—Ed.]

** In fact as Marx made clear capital is not exchanged for labour but for labour power. The economists of the Classical school, however, remained unaware of this distinction and spoke about an exchange of capital for labour.

salmon, and that the means of production that each of them uses (the bow and arrow of the hunter, the boat and implements of the fisherman) are products of identical amounts of labour. In this case one deer will exchange for two salmon, completely independently of whether or not the hunter and the fisherman are independent producers or capitalist entrepreneurs conducting their business with the help of hired labour. In the latter case the product will be divided up between capitalist and workers, 'but it [the proportion of the product going to wages—*Trans*] could not in the least affect the relative value of fish and game, as wages would be high or low at the same time in both occupations. If the hunter urged the plea of his paying a large proportion, or the value of a large proportion of his game for wages, as an inducement to the fisherman to give him more fish in exchange for his game, the latter would state that he was equally affected by the same cause; and therefore under all variations of wages and profits the natural rate of exchange would be one deer for two salmon.' [11] In other words, no matter by what principle capital is exchanged for labour, the exchange of *one commodity for another commodity* still takes place on the basis of the *law of labour value*: the proportions in which commodities mutually exchange for one another are determined exclusively by the relative quantities of labour required for their production.

We can now see the error in Smith's view, where in a capitalist economy *revenues* (wages and profit) appear as the basic sources of value, the primary magnitudes which, when altered, entail changes in the *value* of the commodity. 'No alteration in the wages of labour could produce any alteration in the relative value of these commodities; for suppose them to rise, no greater quantity of labour would be required in any of these occupations but it would be paid for at a higher price, and the same reasons which should make the hunter and fisherman endeavour to raise the value of their game and fish, would cause the owner of the mine to raise the value of his gold. This inducement acting with the same force on all these three occupations, and the relative situation of those engaged in them being the same before and after the rise of wages, the relative value of game, fish, and gold, would continue unaltered' [12] From here we get Ricardo's famous rule: *a rise in wages, contrary to the view of Smith, does not cause the value of the product to go up, but rather causes profits to fall*. A fall in wages makes profits rise. The value of the product can rise or fall only in consequence of changes in the amount of labour demanded for its production, and not because wages have gone up or down.

This proposition, which runs like a red thread through the whole of Ricardo's work, is of cardinal importance. In the first place, by adopting it Ricardo took a correct position on the question of the relationship between *value and revenue*, an issue over which Smith had observed his own helplessness and inconsistency. Smith had incorrectly maintained that the value of a product is composed of the sum of wages, profit, and rent (and hence that the size of these revenues determines the amount of a commodity's value). This was completely alien to Ricardo's view. His standpoint is that the size of a product's value—as determined by the quantity of labour expended on its production—is the *primary*, basic magnitude that then *breaks down* into wages and profit (rent for Ricardo is not a component part of price). It is obvious that once the entire magnitude (the value of the product) is given *in advance* as a fixed entity (being dependent on the quantity of labour needed to produce it), any increase in one of its parts (i.e., wages) will invariably lead to a fall in the other (i.e., profit).

Secondly, the proposition under discussion is testimony that Ricardo saw profit as that part of the *value* of the product—created by the *labour of the worker*—which remains after deducting wages, and therefore moves *inversely* to the latter. Ricardo's position here definitively disproves any and all attempts to interpret his doctrine as a theory of production costs. If Ricardo's view had been that value is determined in conformity with production costs, i.e., by what is actually paid to labour in the form of wages, changes in the latter would elicit a corresponding change in the product's value. However, this is the very view that Ricardo is so forthrightly rebelling against. His assertion that wages and profits change inversely to each other is comprehensible only under one condition: if profit has its source in the surplus value created by the worker's labour. We are compelled, therefore, to acknowledge that *the idea of surplus value* (as viewed in its quantitative aspect) lies at the very basis of Ricardo's system, and that he applied it with greater consistency than did Smith. The fact that Ricardo concentrated his attention mainly on the exchange of commodities for other commodities and refrained from directly analyzing the exchange of capital for labour in no way refutes this statement; nor does the fact that Ricardo's specific mentionings of surplus value are less frequent than we find in Smith, who often makes reference to the 'deductions' made from the worker's product on behalf of the capitalist and the landlord. For Ricardo the existence of profit—and even an equal rate of profit—is presupposed in the very first pages of his study, providing, so to speak, a permanent background to the picture he is going to paint. Although

Ricardo does not inquire directly into the origins of profit, the general direction of his thinking leads him to the concept of surplus value. The value of the product is a precisely fixed magnitude, determined by the quantity of labour necessary for its production. This magnitude divides up into two parts: wages and profit. Of these, *wages* are firmly fixed, being determined by the value of the worker's customary means of subsistence (see below, Chapter Thirty)—that is, by the quantity of labour needed to produce corn on land of the poorest quality. What is left after wages (i.e., the value of the worker's means of subsistence) have been deducted from the product's value constitutes *profit*.

Like Smith, Ricardo analyzed profit and rent as separate entities, rather than bringing them together under the general category of surplus value. He confused surplus value with profit, mistakenly extending to it the laws applicable to surplus value.

Ricardo ignores the social nature of profit, riveting his entire attention on its quantitative aspect. The state of the productivity of labour in agriculture, the value of the worker's means of subsistence, the size of wages, and, depending upon fluctuations in the latter, the size of profits, are the causal connections and quantitative relationships that Ricardo studies. Ricardo makes the size of profits depend exclusively on the magnitude of wages and hence, in the last instance, on changes in the productivity of labour within agriculture. This is far too unilinear and narrow. Insofar as we are dealing with the mass of profits, this depends not simply on the size of wages, but on many social factors as well (the length of the working day, the intensity of labour, the number of workers). Insofar as we are dealing with the rate of profit, this depends to a very large degree upon the size of the total capital on which the profit is being calculated. Ricardo's disregard for these various factors is a weak point in his theory of profit; yet at the same time it graphically reveals one of its valuable strengths: Ricardo's overriding interest in the growth of the productivity of labour as the factor which ultimately determines changes in the value of products and the revenues of the different social classes.

3. Prices of Production

Up to this point Ricardo has been more or less successful in avoiding the reefs on which Smith's theory of value ran aground. True, he did not really resolve the problem of the exchange of capital for labour which had been so theoretically troublesome for Smith. But by pushing

it to one side he naturalized, as it were, its inherent dangers and was able to show that the distribution of the product's value between capitalist and worker in no way affects the *relative* values of the products being exchanged. Of course, this argument conceals its own pitfalls. It assumes, for example, that a rise in wages (and a corresponding fall in profits) affects each of the two commodities being exchanged *to the same degree*. This assumption, however, is justified only under one condition: that the producers of the two commodities either advance their *entire* capital on the purchase of labour power (i.e., on the hire of workers) or divide it up between constant and variable capital in *exactly the same* proportions (Ricardo talks about fixed and circulating capital, but this has no effect on the problem). If each of them expends £1,000 on constant capital (machinery, raw materials, etc.) and £1,000 on hiring workers, then a rise in wages (say, by 20%) will have the same effect on both our entrepreneurs and have no influence on the relative values of their commodities. It is a different matter if, while one entrepreneur divides up his capital in the proportions we have stated here, the other lays out his entire capital of £2,000 purely and simply on hiring workers. Obviously a 20% rise in wages is going to be felt more sensibly by the second entrepreneur; and his rate of profit will fall below that earned by entrepreneur number one. In order to equalize the rate of profit in the two branches of production the relative value of the products in the second branch must rise in comparison to the value of the products of the first so as to compensate it for the greater loss suffered from the increase in wages. [13] We arrive, then at an *exception* to the rule that a change in wages does not affect the relative value of the products that are being exchanged: should exchange take place between branches of production with *different* organic compositions of capital, any increase in wages will be accompanied by a *rise* in the relative value of the products of the branch of production with the *lower* organic structure of capital (i.e., the branch with the greater proportion of living labour) and a *fall* in the relative value of the products in the branch whose capital structure is *higher*. Consequently, the *relative values* of products (produced either by capitals with different organic compositions, by fixed capitals of unequal lifespans, or by capitals having unequal turnover periods) can alter not only because of changes in the relative quantities of labour necessary for their production, but also from a *change in the level of wages* (which means a corresponding change in the rate of profit). This is the famous '*exception*' to the law of

In fact it is the price of production that changes, and not the product's value. However Ricardo did not differentiate prices of production from value.

labour value that Ricardo examines in Sections IV and V of the first chapter of his *Principles*. The heading to Section IV reads 'The principle that the quantity of labour bestowed on the production of commodities regulates their relative value, considerably modified by the employment of machinery and other fixed and durable capitals'. * The law of labour value retains full validity only when the products being exchanged are produced by capitals that have equal *organic compositions*, are of the same *longevity*, and are advanced for equal *periods of time* [14]

Ricardo illustrates his idea with the following example. Farmer A hires 100 workers, each of whom he pays a wage of £50 a year. His total circulating (variable) capital is £5,000 pounds. We assume that he makes no outlays on fixed capital. Given an average rate of profit of 10% the farmer's corn will at year's end have a value of £5,500. At the same time cloth manufacturer B also hires 100 workers, investing in his business a circulating capital of £5,000. However, to manufacture the cloth these workers use machinery with a value of £5,500 pounds. This means that B is investing in his business a total capital of £10,500. If, for the sake of simplification, we assume that the machinery does not depreciate, the cloth that has been manufactured in the course of the year will have a value of £6,050: £5,000 as replacement for circulating capital, plus £500 (= 10% of this circulation capital), plus £550 (= 10% of the fixed capital). Although both the corn and the cloth have been produced with equal quantities of labour (100 men), ** the cloth is worth more than the corn: into the price of the cloth there enters an additional sum of 550 pounds, which is *profit on the fixed capital*. Where does this additional profit come from if no more labour has been expended on producing the cloth than on the corn? Ricardo does not ask this question. He states and then accepts as given the fact that the ratio of the corn's value to the cloth's is 5500:6050.

* Ricardo always speaks of fixed and circulating capitals, but by the latter he essentially means capital advanced for the hire of workers (i.e., variable capital, in Marx's terminology). [This quotation is from the *Principles* (Staffa edition) p. 30 —Ed.]

** Since we have assumed that the machinery used in cloth manufacturing does not depreciate it does not transfer any of its value to the cloth. [Rubin might more properly have said here that it does not transfer any of its value to the value of the cloth. Although Marx and virtually every Marxist economist since have talked of value being transferred or imparted directly to the commodity one does not want to lose sight of the fact that value is a *social*, and not a *material* property of the product. For a truly excellent discussion of the problems caused by the 'mental materialization of human relations' (the latter being the proper subject of political economy) amongst students of Marxism, see E. A. Preobrazhensky, *The New Economics* (Oxford University Press, 1965), pp. 147-50. From the point of view of their method, especially their philosophical treatment of the categories of political economy, Preobrazhensky and Rubin shared a great deal in common—Ed.]

From here Ricardo goes on to examine what effect *a change in wages* will exert on the value of these two commodities. Assume that wages rise, thus causing the average level of profits to fall from 10% to 9%. The value of the corn *will not change*, but will remain at its old figure of £5,500: whatever the fall in the farmer's profits, his total wage bill will increase by the same amount, so that the sum of wages plus profit will still be equal to £5,500. Similarly, the sum of cloth maker B's circulating capital (i.e., his workers' wages) plus the profit derived from it is unchanged to £5,500. What does alter is the additional profit on his £5,500 of fixed capital. Previously he had added on 10% (£550), thus making his cloth worth £5,500 + £550, i.e., £6,050. Now he charges only 9% (£495), so that the price of the cloth becomes £5,500 + £495, i.e., £5,995. The ratio of the value of the corn to the value of the cloth, which before had stood at 5,500:6,050, stands now at 5,500:5,995. Consequently, *a rise in wages* (or, what is the same thing, *a fall in profits*) *lowers* the relative value of those commodities being produced using *fixed capital* (or using a larger amount of fixed capital). The reason for this is that the price of these commodities contains *an additional amount of profit* charged on the fixed capital which declines with the fall in the rate of profit.

The example we have analyzed poses the investigator not only with the problem of how changes in wages affect the value of different commodities, but also with the much more profound and basic problem of how to reconcile *the law of labour value* with the law of *the equalization of the rate of profit* on capital. We saw that prior to there being any change in wages—and completely independent of this change—the value of corn stood to the value of cloth in the ratio of 5,500:6,050, even though equal quantities of labour had been expended on their production. Here before us we have two commodities, produced with equal quantities of labour (100 workers), but where the capitals advanced are unequal (£5,500 compared with £10,500). From the point of view of the theory of labour value the labour value possessed by the two commodities is *equal*. From the point of view of the law of an equal rate of profit, the price of the latter commodity must be *higher*, since it contains a profit on a *larger capital*. How do we resolve this contradiction? It was to answer this question that Marx constructed his theory of '*prices of production*'. According to Marx's theory, in a capitalist economy, with its tendency towards an equalization of the rate of profit, commodities are sold not at their labour values, but at their 'prices of production', i.e., production costs plus average profit. The total mass of surplus value

produced in society is divided up between all of its capitals in proportion to the size of each. If some commodities are sold at prices above their labour value, others are sold at prices below it. A branch of production with a high capital structure receives the average profit, which exceeds the total surplus value that this branch has produced. These 'additional' sums of profit are taken, however, out of the general reserve of surplus value created by all of the branches of production together.

Ricardo was not only unable to *resolve* the problem of 'prices of production' he could not even *pose* it in all its scope. True, he understood that with two branches of production having different organic structures of capital the prices of their products must deviate from their labour values to allow their rates of profit to be equalized. Ricardo started out grasping a firm hold of the idea that the governing tendency within capitalist economy was *for profits to be equalized*. He had no doubt that cloth must cost more than corn, despite their equal labour values, so that its owner could earn a profit on his larger capital investment. The cloth manufacturer's right to receive a profit corresponding to the size of his capital appeared to Ricardo so natural that the question of where this additional £550 profit (on fixed capital) originated from did not concern him. By assuming an *average rate* of profit from the very outset, i.e., that commodities sell not at their labour values but at their prices of production, he avoids the *basic* problem of *how the average rate of profit is formed* and how labour value is transformed into *prices of production*. Rather, his attention is focused specifically on the effect that *changes in wages* have on the relative prices of commodities produced by capitals with unequal organic compositions, independently of alterations in labour value. Ricardo, in establishing that changes in wages and profit do influence the relative values of commodities, acknowledges that here we have a '*modification*' or '*exception*' to the law of labour value. He consoles himself that this '*exception*' is of no great significance: the effect that changes in wages (and profit) exert on the relative values of commodities is *insignificant* compared to the impact of changes in the quantity of labour necessary for their production. By analyzing the quantitative changes that take place in the value of commodities the growth in the productivity of labour preserves its former role as the predominant factor. On this basis Ricardo considers himself justified in pushing aside his exception and considering 'all the great variations which take place in the relative value of commodities to be produced by the greater or less

quantity of labour which may be required from time to time to produce them '[15] Exceptions notwithstanding, the law of labour value *retains its validity* in his eyes, and he subsequently constructs his entire *theory of distribution* upon it

Although Ricardo continues to hold fast to the law of labour value, the exceptions to it in fact punch a gaping hole in his formulation of the theory of value. To the question, where does the *profit on fixed capital* come from?, Ricardo gives no answer. Instead of demonstrating that the product of one branch of production will sell as much above its labour value as the product of another branch sells below its own, Ricardo makes another, totally unintelligible assumption: corn sells at its *full* value (£5,500), but cloth sells *above* its value (£5,500 + £550). Instead of demonstrating the process by which the average rate of profit is *formed*, Ricardo takes the rate of profit to be 10% in advance, without any explanation. The source of the profit on *circulating* (variable) capital is the *labour value* of £5,500 created by the labour of 100 men; it therefore falls with every increase in wages (and vice versa): the sum of wages (circulating capital) plus the profit on circulating capital is assumed to remain steady at £5,500. The profit on fixed capital is mechanically *added* to the labour value created by the workers' labour at the defined rate of 10% (that is, a profit of unknown origin equal to £550, or 10% of the fixed capital, is added to the £5,500 value that the 100 workers have created). This mechanical adding together of the profit on fixed capital and the profit on circulating (variable) capital illustrates clearly the way in which Ricardo had *mechanically combined the law of labour value and the law of an equal rate of profit on capital*. Ricardo did not abandon the first, but he was unable to make it accord with the second. Smith's theory of value came to ruin over the problem of exchanging *capital for labour*; Ricardo's theory, on the other hand, was unable to resolve the problem of how *prices of production and an equal rate of profit* are formed. Ricardo himself acknowledged that his exceptions had introduced a contradiction into the theory of value. He says in his correspondence that the relative value of commodities is regulated not by one, but by two factors: 1) the relative *quantity of labour* necessary for their production, and 2) the size of the *profit on capital* up to the time when a product of labour can be put on the market (or, what is the same thing, the relative periods of *time* required in bringing a product to market). [16] Here *profit on capital* (or the time over which capital is advanced) functions as an independent factor which regulates—*along with labour*—the value of commodities

This *contradiction* in Ricardo's doctrine served as a starting point for subsequent scientific developments. Ricardo's followers (James Mill and McCulloch) did their best to maintain that unstable equilibrium between the theory of labour value and the theory of production costs (or between the law of labour value and the law of an equal rate of profit) which was to be found in Ricardo. Freedom from these contradictions could be had either at the price of abandoning the labour theory of value or by fundamentally reworking it. Malthus, a severe critic of Ricardo, called for the first of these when he argued that the many 'exceptions' allowed for by Ricardo sapped the law of labour value of any definitive validity. The second line was pursued by Marx, whose theory of 'prices of production' resolved those contradictions which, though latent and confused, had made themselves felt in Sections IV and V of the first chapter of Ricardo's book, and which were to become the subject of lively debates in post-Ricardian literature (see Chapter Thirty-Three below).

- 1 'The produce of the earth—all that is derived from its surface by the united application of labour, machinery and capital is divided among three classes of the community; namely the proprietor of the land, the owner of the stock or capital necessary for its cultivation and the labourers by whose industry it is cultivated.

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population, and on the skill, ingenuity, and instruments employed in agriculture.

To determine the laws which regulate this distribution, is the principal problem in Political Economy. Ricardo Preface to the *Principles*, p. 5

- 2 It is interesting to note just how closely Rubin's critique of Smith's theory of value (see Chapter Twenty-Two above) parallels the critique offered by Ricardo. 'Adam Smith, 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.

If this indeed were true if the reward of the labourer were always in proportion to what he produced, the quantity of labour bestowed on a commodity, and the quantity of labour which that commodity would purchase, would be equal and either might accurately measure the variations of other things: but they are not equal; the first is under many circumstances an invariable standard, indicating correctly the variations of other things; the latter is subject to as many fluctuations as the commodities compared with it. Adam Smith, after most ably showing the insufficiency of a variable medium such as gold and silver, for the purpose of determining the varying value of other things has himself by fixing on corn or labour chosen a medium no less variable.

'It cannot then be correct, to say with Adam Smith "that as labour may sometimes purchase a greater and sometimes a smaller quantity of goods, it is their value which varies not that of the labour which purchases them;" and therefore, "that labour alone never varying in its own value is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared;"—but it is correct to say as Adam Smith had previously said, "that the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another;" or in other words that it is the comparative quantity of commodities which labour will produce, that determines their present or past relative value, and not the comparative quantities of commodities, which are given to the labourer in exchange for his labour' *Principles* pp 13-17 (Ricardo's italics)

3 *Ibid* p 12

4 *Ibid* p 22.

5 *Ibid* pp. 285-86; Ricardo's italics

6 *Ibid* p 284

7 *Ibid* p 73 The exchangeable value of all commodities whether they be manufactured or the produce of the mines, or the produce of land, is always regulated, not by the less quantity of labour that will suffice for their production under circumstances highly favorable and exclusively enjoyed by those who have peculiar facilities of production; but by the greater quantity of labour necessarily bestowed on their production by those who have no such facilities; by those who continue to produce them under the most unfavorable circumstances; meaning—by the most unfavorable circumstances the most unfavorable under which the quantity of produce required renders it necessary to carry on the production'

8 *Ibid* p 283

9 *Ibid* p 382

10 *Ibid* p 11.

11 *Ibid* p 27

12 *Ibid* p 28

13 As Rubin notes later on in this discussion it is not really the *relative values* of the two commodities that are changing (and we must at all times keep in mind that Ricardo is talking about their *relative* standing to each other and not their *absolute* values—although as Meek points out in his *Studies in the Labour Theory of Value*, p 104 there are special conditions under which a rise in wages can cause absolute price to fall as well) but their *prices of production*

In Volume III of *Capital* Marx noted the seeming conflict between the theory of value which, as we will illustrate, can have capitals of equal size earning unequal rates of profit and the clearly observable realities of every day economic life where such inequalities in the rate of profit do not exist but for exceptional cases. Let us take two capitals, A and B, each with total capitals of 100 (we have taken the example from Chapter IX of *Capital* Volume III):

$$A \quad 80c + 20v + 20s = 120$$

$$B \quad 70c + 30v + 30s = 130$$

The two capitals are of identical size but create products of unequal value, owing to different proportions between constant capital which simply transfers its value to that of the final product, and variable capital, which is the only value-creating element. What is more, though of equal size, these capitals have unequal rates of profit. The rate of profit, which is defined as the ratio of surplus value to the *total capital*, equals for capital

$$A: \frac{20s}{80c + 20v} = 20\%; \text{ for capital } B \frac{30s}{70c + 30v} = 30\%$$

Marx resolved the problem by noting that commodities do not actually sell at their simple labour values but at *prices of production* which *deviate* from these labour values but which nevertheless *are based upon them*. We know that the two capitals must have equal rates of profit. This rate is determined by the relationship between society's *aggregate* surplus value and its *aggregate* capital. The total capital (assuming that capitals A and B are the only two capitals in society) here equals 200; the total surplus value equals 50. The rate of profit *p'* therefore equals 25%. Each of these capitals will sell at a price of production determined by its *costs of production*, i.e. total capital, plus the profit on that capital, which is the *average rate of profit for society as a whole*, or 25%. Thus capital A will have a price of production for its product of

$$80c + 20v + 25p = 125$$

and capital B a price of production on its product of:

$$70c + 30v + 25p = 125$$

Now the two capitals have equal selling prices and equal rates of profit; their selling prices are the same only because these are capitals of equal gross size earning the average rate of profit. What has happened is that the total surplus value of society as a whole has been *apportioned according to the size of the total capital of each of its constituent capitals*. This means that capital A sells *above* its value and capital B *below* its value. However, total surplus value remains the same; it is merely redistributed so as to equalize rates of profit. Also total price equals total value (250 in both cases).

In the example that Rubin has given here we have two capitals of equal size, but with different apportionments between constant and variable capital. We do not know the rate of profit, but it is assumed to be equal in the two cases. Let us say 30%.

$$A \quad 1000c + 1000v + 600p = 2600$$

$$B \quad 0c + 2000v + 600p = 2600$$

On the assumption that a rise in wages comes out of profit, a 20% rise in wages for capital A will raise them to 1200; if this comes out of profits (since the actual labour expended does not alter) capital A stands at:

$$A \quad 1000c + 1200v + 400p = 2600$$

Similarly a 20% rise for capital B will raise them to 2400; reducing profit by the same amount, capital B will be:

$$B \quad 0c + 2400v + 200p = 2600$$

They still have equal prices but now they have unequal rates of profit; capital A's rate of profit equals $400/2200 = 18\%$; capital B's rate of profit equals $200/2400 = 8\frac{3}{4}\%$. To equalize its rate of profit with that of capital A capital B would have to raise its price (by raising its total profit) from 200 to 432. Then with a rate of profit of 18% its price would be:

$$B \quad 0c + 2400v + 432p = 2832.$$

Its price of production (since that is really what we are dealing with here) has risen *relative* to the price of production for capital A.

It is important to recognize why this has happened. A 20% rise in wages has affected the two capitals *unequally* by *changing the size of their total capital*. Given the existence of an average rate of profit, once their capitals were unequal in size their selling prices had to diverge. It is equally important to note that this example already presumes the existence of an average rate of profit; i.e. values in terms of labour values in no way figure into it. In the example given, if we assume that the two capitals function with equal rates of exploitation (s/v) they would in value terms look as follows (assuming that s/v equals 40%):

$$A \quad 1000c + 1000v + 400s = 2400$$

$$B \quad 0c + 2000v + 800s = 2800$$

In other words, the very assumption of an equal rate of profit in this example hides the fact that they have *unequal* labour values. On Marx's premises these two capitals could not have had equal rates of profit and sold at their values in the first place, except by assuming either that the rate of exploitation in capital A is double that in capital B, so that they each produced 800 in surplus value, or that A's capital circulated *twice as fast* as B's (in that case its 1000v would circulate twice in a year, earning a *total annual* surplus value of 800). Were either of these exceptions permitted (the last one being quite plausible) the two capitals would be equal in size, produce equal surplus values, have equal rates of profit, and hence the values of their products and their prices of production would be identical. On the effects of times of turnover on the annual rate of surplus value and the rate of profit, see *Capital*, Volume II, Chapter XVI, and Volume III, Chapter VIII. An excellent and lucid explanation of the problem of prices of production and its relation to Marx's theory of value (discussed by Marx in Part II of *Capital*, Vol. III) is Rubin's chapter 'Value and Production Price' in his *Essays on Marx's Theory of Value*.

- 14 The question of the longevity of fixed capital can be illustrated very simply. Suppose that we have two capitals of equal size each earning equivalent surplus values, and hence having equal rates of profit, but experiencing unequal rates of depreciation on their fixed capital. Suppose that capitals A and B each have a stock of fixed capital of 1000, and that they use no circulating constant capital. Their fixed capital, however, depreciates at different rates: the fixed capital of capital A wears out in ten years; that of capital B wears out in five. In value terms the value of A's annual product will contain a constant capital component (which, after all, represents only the value transferred by the means of production in that particular year) of 100, the value of B's product a constant capital component of 200.

$$A \quad \text{Total capital} = 1000 \text{ fixed capital stock} + 100v$$

$$\text{Value of product} = 100c + 100v + 100s = 300$$

$$B \quad \text{Total capital} = 1000 \text{ fixed capital stock} + 100v$$

$$\text{Value of product} = 200c + 100v + 100s = 400$$

Here the *total* capital equals 1100 for both A and B; their rates of profit are also equal, being 1/11 in both cases. However, the *value* of their annual product is different, because of the faster depreciation of fixed capital in B.

Similarly, if they have unequal periods of turnover (what Rubin means when he says they may be advanced for unequal periods of time), their values can also differ, as we have shown in the previous note. In the example given here, if their fixed capitals depreciated at the same rate, so that both their total capital and the

annual constant capital value were identical in both A and B. but A's capital turned over at twice the speed of B's, A's annual surplus value would equal 200, as compared to B's surplus value of 100. Their values would now be unequal (400 for A's annual product value versus 300 for B's) as would their rates of profit (A would earn a higher rate of profit than B).

An interesting variation of this example would be if A's capital turned over twice as fast as B's, but B's fixed capital depreciated at twice the rate of A's (i.e., we combined the two sets of assumptions in this illustration). Their values would be

$$A \quad 100c + 100v + 200s = 400$$

$$B \quad 200c + 100v + 100s = 400$$

The value of their annual product would now be equal, but A's *rate of profit* would be higher.

15 *Principles*, pp. 36-37

16 In other words, a producer at greater distance from the market will require greater time to realize his product, and hence his capital will have a longer turnover period.

CHAPTER TWENTY-NINE

Ground Rent

Ricardo's theory of *differential rent* has suffered far fewer alterations during the ensuing development of economic thought than have all his other theories. At present it is generally accepted by nearly all economists of the most diverse tendencies. Marx was to incorporate its basic features into his own theory of rent.

The second chapter of Ricardo's book, devoted to rent, is, by virtue of its simplicity and the clarity of its basic ideas, one of the most brilliant examples of the application of the method of abstraction in the history of economic literature. From a few initial propositions and the application or implication of a number of simplifying conditions, Ricardo derives his entire theory of rent* which abuts directly upon his theory of value, developed by him in Chapter I of his book. He asks, at the very outset, whether the fact that the price of agricultural produce (in the broad sense) includes rent does not contradict the theory of value?

Prior to Ricardo, queries as to the origin of rent had received the following answers. The *Physiocrats* (see Chapter Fourteen) had said that rent originates in the superior productivity of agricultural labour which, in collaboration with the forces of nature, yields a 'net product' over and above the produce consumed by the workers themselves: rent is created *by nature*. In Smith (See Chapter Twenty-Three), as usual, we find several embryonic solutions to the problem. In the first he partially takes over the physiocratic idea that rent results from the special productiveness of agricultural, as compared to industrial labour; secondly, in his idea that profit and rent are both 'deductions' from the value created by the worker's labour, he reduces rent to labour; finally, there is his idea that the value of the product is defined as the sum of wages, profit, and rent, by virtue of which he opened the way for those theories that attribute the higher value of agricultural

*The forerunner to Ricardo's theory of differential rent was a writer from the end of the 18th century. Anderson. The law of 'diminishing fertility of the soil' was formulated in 1815, practically simultaneously by West, Malthus, and Ricardo. [On Anderson—and Malthus's alleged plagiarism of Anderson's theory—see *Theories of Surplus Value* (Progress Publishers English edition) Part II pp. 114-20—Ed.]

produce to the need to pay rent to the proprietor of the land. If taken to its logical conclusion this last idea turns into a theory that explains rent by the landowner's 'monopoly' status which results in the sale of agricultural products at prices which exceed their value by the amount of the rent.

Thus, from the point of view of the *Physiocrats*, rent is an *in natura* surplus of products over and above those consumed by the workers. According to the 'monopoly' theory, rent is an increment added onto the price of the agricultural product, which is then sold above its value. The first solution tears the theory of rent from the theory of value, the second sees rent as an exception to the principle of labour value.

Ricardo's theory was directed against both these viewpoints. As an objection to the *Physiocrats* he points out that the exceptional productivity of agricultural labour—assuming that it actually exists—is accompanied by a rise in the number of use values or *in natura* produce and hence ought to result in a decline, and not a rise in their exchange value. The source of rent must be sought not in the surplus of products *in natura*, but in their greater exchange value, which to the contrary, arises from the difficulty of producing them. Ricardo shifts the entire problem out of the sphere of use value and into that of exchange value. 'When land is most abundant, when most productive, and most fertile, it yields no rent; and it is only when its powers decay, and less is yielded in return for labour, that a share of the original produce of the more fertile portions is set apart for rent.' [1] p. 74

Hence we have Ricardo's first thesis: rent comes not from the special productivity of agriculture, but on the contrary, results from the *deterioration of the conditions under which labour is applied, or the transfer of production from superior land to land of poorer quality*. The value of corn is determined by the quantity of labour expended to produce it on the worst land. * Rent is the difference between the value of this corn (its 'socially necessary' or 'market value', to use Marx's terminology) and the 'individual value' of a given bushel of corn produced on land of prime quality. This rent is called, therefore, 'differential rent'; and arises where expenditures of labour**

Ricardo mistakenly generalized this law to apply to the exchange value of all products.

**Ricardo talks about expenditures of labour and capital but makes no distinction between a simple commodity economy, where labour is expended and the product sold at its labour value and a capitalist economy where what is expended is capital and the product is sold at its price of production (or, in agriculture at its price of production plus absolute rent).

have different productivities, either by virtue of being made on pieces of land of unequal fertility (rent of *fertility*) or at different distances from a common market (rent of *distance*)* or by having been successively applied to one and the same plot of land (rent of *intensity*).

The theory that rent is the margin between the *individual* value and the *socially necessary* value of products** links the theory of rent immediately and inseparably to the theory of value, making the phenomena of rent akin to other economic phenomena, especially to 'differential profit', or '*superprofit*'. The latter accrues to those capitalist entrepreneurs who carry out production using new improvements, particularly new methods of production, etc. The difference between superprofit and rent is as follows: 1) superprofit is a *temporary* phenomenon, which disappears as soon as the improvement in question becomes universally applied and thus lowers the product's socially necessary value, whereas differential rent, because it depends on permanent differences in the fertility or location of plots of land or in the productivity of successive expenditures of labour, is *constant*;† 2) superprofit is earned by the *capitalist*, whereas rent goes to the *landlord*. Let us consider this point further.

Why is it that the *superprofit* which the farmer receives from employing more advanced machinery stays in his pocket, while the superprofit accruing from the greater fertility of the land he is cultivating has to be paid over to the landlord and turned into *rent*? Should a portion of this rent remain with the farmer he would be receiving a superprofit (i.e., a profit greater than the average rate of profit) solely by virtue of the fact that he is producing on a plot of land that is more fertile. In this case all other farmers would want to lease this plot, upping what they would pay as rent until the entire superprofit (the rent) was passing into the hands of the landowner and the farmer was left with only an average rate of profit. Thus, to explain why the whole of the differential rent is transferred to the landlord, Ricardo puts forward a second premise which states that *there are*

*Here it is a question of differences in expenditures not on production but in transporting the produce to where it will be sold. Ricardo mentions this form of rent only in passing. The doctrine of rent of distance was developed by Thünen in his famous book *Die isolierte Staat* (1827).

**Because there is no explanation in Ricardo of the social process by which individual labour is transformed into socially necessary labour, he was unable to give his theory precise formulation, even though he had developed it in its essentials.

†Even though this difference is constantly present its magnitude nonetheless fluctuates, thus giving rise to changes in the volume of differential rent.

sufficient capitals in the country looking to invest in agriculture wherever they can be assured of receiving the average rate of profit

Rent, therefore, is received not because the price of corn exceeds its value, but because the value of the particular corn in question is below the socially necessary value. With this explanation Ricardo resolutely rejects the second of the theories that we earlier referred to, namely the 'monopoly' theory, which sees rent as an increment added onto the value of the product. 'The reason then, why raw produce rises in comparative value, is because more labour is employed in the production of the last portion obtained, and not because a rent is paid to the landlord. The value of corn is regulated by the quantity of labour bestowed on its production on that quality of land, or with that portion of capital, *which pays no rent*. Corn is not high because a rent is paid, but a rent is paid because corn is high' [2] Rent *does not enter into the product's value*, which is determined by the amount of labour (or capital) expended on poor quality land. Land of this quality earns the farmer only an average profit on capital, but will provide nothing extra that could be payed over as rent to the landlord. Yet how can the farmer get hold of such a tract for cultivation without paying rent to a landowner? Ricardo is obviously presuming the existence of poor quality land *freely accessible* to anyone who wishes to work it. In other words, Ricardo is ignoring just those limitations that private property in land—including very poor land—places in the way of capital investment in agriculture. Only in this way could Ricardo arrive at the conclusion that *inferior tracts of land yield no rent*.

Ricardo's theory of rent gives us, then, the following three propositions: 1) there is no such thing as *absolute* rent (i.e., rent paid for cultivating land of the poorest quality); 2) the only rent that exists is *differential* rent, which equals the difference between *individual* and *socially necessary* expenditures of labour (or capital) and arises because farmers are gradually bringing land of increasingly *inferior* quality under cultivation; 3) the whole of the differential rent goes to the *landowner*. Ricardo's first thesis, as we will see, is wrong and needs correction. His doctrine of differential rent is on the whole correct. It is still true that the theory of differential rent as Ricardo developed it contains a number of non-essential elements that need to be expunged. Ricardo had tied his theory of rent to the mistaken idea that, because farmers would be tilling land of poorer and poorer quality, the quantity of labour needed to produce a bushel of corn would go up and there would be an inevitable and progressive rise in the price of corn. Indeed, Ricardo does acknowledge that progress in

agricultural technology reduces the quantity of labour required to produce corn, but it is his opinion that these technical advances can only momentarily retard or attenuate the operation of this so-called law of '*diminishing fertility of the soil*' and not abolish it

Ricardo's erroneous idea that technical progress in agriculture tended in a direction opposite to that of industrial development was simply a theoretical reflection of *fortuitous* economic phenomena that *temporarily* appeared in England at the beginning of the 19th century. English *industry* in Ricardo's time was marked by the rapid introduction of machine production and the cheapening of commodities. In his theory of *value* Ricardo generalized this phenomenon: he was convinced that 'alterations in the quantity of labour necessary to produce commodities are of daily occurrence. Every improvement in machinery, in tools, in buildings, in raising the raw material, saves labour, and enables us to produce the commodity to which the improvement is applied with more facility, and consequently its value alters' [3] Industry develops in an atmosphere of non-stop *technical progress*, growth in the *productivity of labour*, and *cheapening of products*. Agriculture develops in a different direction—and here again Ricardo is generalizing from the previously described features of early-19th-century English agriculture (the tillage of new land of poorer quality, the rising costs of producing corn, and an awesome rise in corn prices). These were the historically transient conditions of English agriculture during the period 1770-1815, but Ricardo in effect incorporated them *in toto* into his theoretical conceptions. According to Ricardo, agriculture develops under the inexorable necessity to move from better land to inferior, with a *rise* in the quantity of labour needed to produce a bushel of corn on land of *decreasing quality*. Ricardo's famous law of '*diminishing fertility of the soil*' was formulated (and this was also done by his contemporaries, West and Malthus) as a hurried and mistaken generalization of the temporary phenomena that he was witnessing. Because of the operation of this law, corn 'has a tendency to become *dearer* from the greater difficulty of producing it' [4] The development of labour productivity in industry and agriculture is subordinated to *different laws*, the result of which is that the values of industrial and agricultural products move in *opposite* directions: '*manufactured commodities [are] always falling, and raw produce always rising, with the progress of society*' [5] p. 93

Ricardo moves on from here to draw a number of conclusions as to how society's revenue will be distributed between its different

classes. With the price of corn constantly rising money wages will grow (although real wages will remain unchanged). The growth of money wages and the rise (both real and monetary) of rent create a tendency for the rate of profit to fall. The lion's share of the benefits of economic progress go to the landlords, to the detriment of the capitalists, and to a lesser extent of the workers as well. Thus, in terms of the *distribution* of society's revenue, the tendencies that Ricardo depicts are these: first, a colossal rise in the price of corn and ground rent; second, an increase in money wages while real wages remain stationary or even fall; and third, a declining rate of profit (this will be discussed further in the next chapter). This entire theory of distribution proceeds from the assumption that corn prices will inevitably rise owing to the operation of the law of (diminishing fertility of the soil).

Every one of these conclusions is premised on a precipitous generalization of a few facts taken from the history of English agriculture at the start of the 19th century. In the first place, it is *historically* incorrect that the best land was always cultivated before inferior areas. Carey shows, using historical examples, that farmers frequently began by cultivating land that was poorer in quality but more easily accessible, and started the cultivation of higher quality land only later (see the chapter on Carey and Bastiat in Part 5 below).

Secondly—and this is Ricardo's decisive mistake—it is untrue that a gradual transition to cultivating inferior land inevitably leads to a progressive rise in the price of corn. Once new technical improvements are introduced corn can be produced on inferior land at a lower production cost than it could previously on land of better quality. The brilliant successes of agricultural technology in the mid-19th century progressively lowered the outlays of labour and capital required to produce a unit of corn and overthrew the pessimistic forebodings of Ricardo and Malthus. Thirdly, it is incorrect that rent only rises when there is a rise in the price of corn. If the *difference* in productivity of expenditures made on different land widens and *the number* of bushels of corn harvested per acre increases, rent can go up even if the price of corn falls. No less mistaken was Ricardo's attempt to explain the *falling rate of profit* on the basis of a rise in the price of corn: its explanation in fact lies in the rising organic composition of capital (see next chapter). Each and every one of these assertions falls as soon as we remove the basic premise of an inevitable and progressive rise in the price of corn.

However false Ricardo's predictions about the tendencies of revenue

movements may have been, this in no way detracts from the *theoretical validity* of his doctrine on differential rent. Let us accept that Ricardo was historically inaccurate when he maintained that farmers always begin by cultivating the best lands and only later shift to poorer ones; let us allow that his certitude that the price of corn must progressively rise was misplaced. Independent of these facts, that is, no matter what the *order in which we transfer* from some tracts of land to others and no matter what the price of corn is, even if it be a *low* one, it remains beyond dispute that labour (and in a capitalist economy, capital as well) will be simultaneously expended on lands of different fertility and geographical location (or on one plot of land at different points in time) It follows, then, that there will be long-term differences in the individual amounts of labour (or capital) expended per unit of product, e.g., per bushel of corn (and not temporary differences, as in industry) Given that in a commodity economy products are exchanged according to their socially necessary expenditures, producers operating under more favourable conditions will inevitably receive from the sale of agricultural produce a *surplus* quantum of value over and above costs of production and the average profit on capital (i.e., over and above their prices of production). Given that the capitalists (farmers) and landowners are separate classes, this surplus quantum, or superprofit, goes to the latter and is transformed into *rent*, that is, into the specific form of income of a definite social class. Thus, for all the corrections that have to be made in Ricardo's theory of differential rent, it remains on the whole fully valid.

His theory of rent needs to be supplemented, however, by the doctrine of *absolute* rent. So long as all land is privately owned Ricardo is wrong to assume that the worst lands under cultivation yield no rent; the landowner would prefer to let this poorest plot of land lie fallow rather than gratuitously give it over to the farmer for cultivation merely so that the latter might earn an average profit on his capital. Where all land is held as private property and farmers and landlords exist as separate classes, even the worst lands under cultivation will yield some rent, even if it is very small. This is what is referred to as *absolute* rent. The best lands will yield both absolute rent and a differential rent (the size of the latter depending on the quality of the land in question, that is, on its fertility or its proximity to a market). Development of the theory of absolute rent belongs to Rodbertus and to Marx.

- 1 *Principles* p. 74
- 2 *Ibid*, p 75 (Rubin's italics)
- 3 *Ibid* p 36
- 4 *Ibid* p 93 (Rubin's italics)
- 5 *Ibid* p 97 (Rubin's italics)

CHAPTER THIRTY

Wages and Profit

Although Ricardo's doctrine on wages was to gain wide currency under the title '*the iron law of wages*' (given it by Lasalle), from a theoretical standpoint it is one of the weakest and least satisfactory parts of his system.

Worst of all, Ricardo—and this is in accord with his general method—paid no regard to the *qualitative* or *social* side of wages. Under what socio-economic conditions do wages arise, what relationships between social classes do they presume, on the basis of what laws does the exchange of wages for labour power take place? Ricardo asks none of these questions. Because he fails to distinguish labour power from labour, he is unable to explain how it is that 'labour' (i.e., labour power) possesses less value than the value that it creates. To explain this Ricardo would have had to differentiate the social characteristics of labour as a commodity (i.e., the labour of the wage worker, or labour power) from the social characteristics of the labour that creates the commodity (i.e., the labour of the commodity producer). Yet we have already noted Ricardo's disregard for the social characteristics of labour and capital (see Chapter Twenty-Eight, Section 2).

Ignoring the qualitative or social side of wages, Ricardo focuses his entire attention on their *quantitative* dimension. Ricardo's writings on the magnitude of wages possess both significant merits and enormous deficiencies. Their greatest merit is that Ricardo persistently strives to define wages as a magnitude that is *precisely fixed*. Ricardo rejects the superficial explanation of the level of wages in terms of the relationship between the supply of, and demand for labour—an explanation that we have already encountered in Smith and which was developed in the 1830's by the proponents of the 'wages fund' theory (see Chapter Twenty-Three and the chapter below on the wages fund). In Ricardo's view demand and supply influence only the '*market price of labour*' i.e., 'the price which is really paid for it, from the natural operation of the proportion of the supply to the demand'. 'However much the market price of labour may deviate from its natural price, it has, like commodities, a tendency to conform to it.' [1] As with commodities,

the market price of labour fluctuates around a stably determined centre, which forms its 'natural price' (or value)

By what is labour's '*natural price*' determined? 'The natural price of labour', says Ricardo, 'is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution' 'The natural price of labour, therefore, depends on the price of the food, necessities, and conveniences required for the support of the labourer and his family. With a rise in the price of food and necessities, the natural price of labour will rise; with the fall in their price, the natural price of labour will fall' '[2] The natural price of labour (or the value of labour power, in Marx's terminology) is determined by the value of *the necessary means of subsistence* of the worker and his family. Lasalle was later to give this theory of '*minimum means of subsistence*' the name '*the iron law of wages*', which he used as an agitational device to demonstrate to the workers the impossibility of achieving any fundamental improvement in their situation within the capitalist system.

Even though we can find embryonic versions of the 'iron law' among economists of the 17th and 18th centuries, it was Ricardo who gave it its classical formulation. Among the mercantilists (see Chapter Three) the iron law bore the character of a practical prescription: wages *had to* be limited to the necessary minimum of means of subsistence in order to cut the costs of production and expand the export of domestic commodities. The Physiocrats (see Chapter Thirteen), among whom Turgot is often deemed to be the author of the iron law, made no clear distinction between the wages of the worker, on the one hand, and the subsistence of the craftsman, or even the profit of the entrepreneur, on the other: according to Physiocratic doctrine all these forms of revenue were restricted to the necessary means of subsistence. Ricardo's merit is to have: 1) formulated the iron law as applying specifically to the wages of *wage labourers*, 2) endeavoured to uncover—albeit unsuccessfully, as we shall see—the *mechanism* which explains how this law works, and 3) tied the theory of wages to the theory of *profit*. For all its failings, Ricardo's theory of wages has enormous advantages over the theory of supply and demand, as formulated by Smith (where it intermingles with the theory of means of subsistence), Malthus, and proponents of the 'wages fund'.

As we know, we can find among economists two variants of the *means of subsistence* theory: one is the theory of a '*physiological minimum*', the other a theory of a '*cultural minimum*'. Proponents of the former say that workers' wages are confined to the sum total of

means of subsistence physiologically needed to sustain the worker and his family. Partisans of the second theory justifiably extend the concept of a minimum of means of subsistence to include all those means needed to maintain the worker at his customary standard of living in conformity with the social and cultural conditions of a given population during a particular historical period. At first glance Ricardo seems to be closer to the broader and more flexible formulation of a cultural minimum. He grasps that the 'natural price' of labour 'varies at different times in the same country, and very materially differs in different countries'. It essentially depends on the habits and customs of the people'. [3] Further on, however, he usually forgets these qualifications and comes close, when substantiating the iron law, to a physiological minimum theory.

How does Ricardo *substantiate* his iron law? In other words, how does he account for the fact that wages will gravitate towards a level which corresponds to the value of the worker's necessary means of subsistence? In Ricardo's view the mechanism which keeps the market price of labour from straying very far or for very long from its natural price is *changes in the population level*. When wages exceed the natural price of labour 'the condition of the labourer is flourishing and happy' and he is able 'to rear a healthy and numerous family. When, however, by the encouragement which high wages give to the increase of population, the number of labourers is increased, wages again fall to their natural price'. [4] They cannot fall below that level for very long, for if they did the workers would be deprived of their essential means of subsistence, 'privations [would] reduce their number', and wages would again go up. The workers' rapid multiplication prevents wages from rising for any length of time above the natural price of labour; when they multiply slowly or die off this keeps wages from falling for too long below it. If, because of ensuing deprivations, a drop in wages below the natural price of labour causes the number of workers to be reduced, it is obvious that the 'natural price' of labour includes only that aggregate of means of subsistence as is unconditionally needed to keep the worker and his family alive. Here Ricardo's teaching comes close to the physiological minimum theory.

Ricardo thus substantiates his iron law of wages by having recourse to the unvarying, biological *law of human reproduction* formulated by Malthus. Once the movement of wages is regulated by 'natural' changes in the population, any and all attempts to raise wages by artificial means, e.g., through strikes or factory legislation, become doomed to failure. Ricardo did not understand that the workers, by

intensifying their economic struggle—itself a reflection of their rising social needs—can bring about a rise in wages. Nor did he grasp the significance of factory legislation (which in his day was still non-existent). In accord with other ideologists of the bourgeoisie, he proclaimed that 'wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature' [5]. The only possibility of a more or less long-term improvement in the workers' condition that Ricardo admitted would be if the law of population was unable to assert its influence. This could happen either because the workers, in seeking to preserve the high level of subsistence that they had obtained, consciously *abstained* from reproducing or because of new colonies with an abundance of fertile land, where the rate of growth of capital *outstrips* the rate of increase in population. On the first point Ricardo was conceding to Malthus, on the second to Smith. Nevertheless, Ricardo nurtured no great faith in the workers' conscious abstention, and considered a rapid growth of capital to be but a temporary phenomenon. Thus, these exceptions notwithstanding, Ricardo continued to hold to his iron law and to take a pessimistic view towards the prospect of a protracted rise in real wages.

Because his theory of wages suffers, as we have already noted, from its approximation to the theory of a *physiological* minimum, it acquires traits of unreality and ahistoricism. These features of the iron law are intensified still further by the *false grounds* on which Ricardo justified it. Especially false is the idea that one can look to the speed or slowness with which the workers *reproduce themselves* as a cause of upward or downward movements in wages. The appearance or disappearance of a surplus working population depends, in capitalist economy, not on the absolute increase or decline in the number of workers, but on the periodic expansion and contraction of capitalist production. The reserve army of unemployed is a necessary appurtenance of capitalist economy, which in no way stems from the fact that the workers are reproducing themselves with exceptional rapidity. In periods of expansion capitalist industry recruits new hands from this reserve army: to do so it does not have to wait the twenty years it would take, on Ricardo's assumption, for a rise in wages to encourage the workers to multiply and bring forth genuinely 'new' labourers into the world. If we are to look for that mechanism which forces wages to gravitate towards the level of customary means of subsistence it should not be in the workings of a Malthusian 'absolute law of population,' but in a 'relative law.'

Ricardo's doctrine on the 'static' level of wages, then, despite the healthy kernel that it conceals, was marred by the biological or 'natural' basis that he gave to it. His interesting doctrine on the 'dynamics' of wage movements suffers from exactly the same defect. Here Ricardo seeks the ultimate cause of phenomena in the workings of natural laws: the 'physico-chemical' *law of diminishing fertility of the soil*, and the 'biological' *law of population*. We saw above, in our chapter on rent, that Ricardo, basing himself on a mistaken belief in the permanence of the former law, considered it inevitable that the prices of corn and other agricultural produce would progressively rise. Since the worker requires a determinate quantity of food stuffs to sustain life, any rise in their price will invariably boost the 'natural price' of labour, or money wages (even though real wages will remain unaltered or even fall, as we shall see below). 'The same cause which raises rent, namely, the increasing difficulty of providing an additional quantity of food with the same proportional quantity of labour, will also raise wages.' [6] 'But there is this essential difference between the rise of rent and the rise of wages' [7] The landlord's rent will increase both in terms of corn (because of the extension of cultivation to inferior lands and the growing disparity between the fertility of superior versus poor plots) and even more so in terms of money (as a consequence of the rise in both value and price of each bushel of corn). 'The fate of the labourer will be less happy; he will receive more *money* wages, it is true, but his corn wages will be reduced' [8] To understand why it is that, according to Ricardo, corn or *real* wages will decline it is necessary to look at the tendencies behind *movements in profits*.

We have already encountered Ricardo's theory that profits always move inversely to changes in wages. 'Profits would be high or low in proportion as wages were low or high', [9] says Ricardo, confusing here—as everywhere—the rate of profit with the rate of surplus value (for the rate of profit can in fact fall even with a fall in wages, providing that the total amount of advanced capital rises at the same time). From here it follows that if money 'wages should rise with the rise of corn profits would necessarily fall', [10] since with the labour value of commodities remaining unchanged manufacturers will sell them at their former price, despite wages having gone up. 'The *natural tendency* of profits then is to fall; for in the progress of society and wealth, the additional quantity of food required is obtained by the sacrifice of more and more labour' [11] Although this tendency will from time to time be arrested owing to advances in agricultural technique and the free import of cheap foreign corn, it casts its gloomy

shadow over the entire future of the capitalist economy: it threatens to bring economic progress to a total halt and to reduce society to a state where 'the very low rate of profits will have arrested all accumulation, and almost the whole produce of the country, after paying the labourers, will be the property of the owners of land' [12]

Even though capitalist society had not yet reached this position, the pace of its economic progress was progressively decelerating with the fall in profit. 'The farmer and manufacturer can no more live without profit than the labourer without wages. Their motive for accumulation will diminish with every diminution of profit' [13] Thus the natural law of diminishing fertility of the soil results in a slow down in the rate of capital accumulation. By virtue of our natural law, however, i.e., the biological law of population, the workers will continue to increase their numbers at the same rate as before. If the number of workers rises at 2% per year while the rate of capital accumulation drops from 2% to 1%, the *demand* for labour power will obviously lag behind its *supply*, in other words, real wages will *fall*. Admittedly, 'instead of the money wages of labour falling, they would rise; but they would not rise sufficiently to enable the labourer to purchase as many comforts and necessities as he did before the rise in the price of those commodities' [14] 'The condition of the labourer will generally decline, and that of the landlord will always be improved' [15] These, then, were the pessimistic conclusions that Ricardo's theoretical arguments led him to and which seemed completely confirmed by the desperate state of the workers at the start of the 19th century. Because of these dismal conclusions economists of the historical-ethical school upbraided Ricardo for being indifferent to the fate of the working class. The rebuke was highly unjust: Ricardo, with supreme scientific conscientiousness and theoretical intrepidity, was merely revealing what appeared to him as the tendencies inevitably inherent in capitalist economy.

Now, a hundred years after the appearance of Ricardo's work, it is easy to prove that he was wrong in his assessment of these tendencies. The decreasing fertility of the soil, the rising price of corn, the growth of money wages, a fall in profit, the decelerating tempo of capital accumulation, a fall off in the demand for labour, and a decline in real wages—such was the chain of cause and effect that Ricardo had depicted. Many of the links in this logical chain proved weak. The rise in *labour productivity* and the enormous advances made in *technology* and *agronomy* showed his idea of an inevitable and progressive rise in the value of corn to be wrong. Not only money wages, but *real* wages,

too, rose as a result of rising social needs and the greater social might of the working class; both factors that had been of little import in Ricardo's day. The growth in the productivity of labour outstripped the rise in real wages, and as a result *relative surplus value* (which Ricardo called profit) *increased*, rather than fell. In spite of this *the rate of profit fell* because of the rising organic composition of capital—i.e., precisely because labour productivity rose instead of dropping. In its details Ricardo's effort to explain how the revenues of the different social classes moved proved to be incorrect. Yet this in no way obviates the immense value of the Ricardian theory of distribution, which marked an entire epoch in the history of our science.

Ricardo was the *first* to have posed the *problem of distribution in all its breadth* and to have made it the focal point of his investigation. 'To determine the laws which regulate this distribution, is the principal problem in Political Economy', he writes in the Preface to his *Principles*. In a letter to Malthus, Ricardo counterposes his own conception of political economy as the science concerned with the laws of distribution of products between classes, to the conception of Malthus, which sees political economy as the science of the nature and causes of wealth. While Smith's chapters on distribution remain a collection of disparate facts and observations, Ricardo presents a complete and theoretically reasoned picture of the interdependencies and movements of incomes, which he has constructed upon a single principle. This principle is the principle of labour value. In Smith the theory of value and the theory of distribution remain logically separated: he constantly fluctuates between two viewpoints, sometimes making value his starting point, at other times revenue. Though Ricardo did in one letter express the view that a resolution of the grand problems of political economy—rent, wages, and profit—were not necessarily tied to the theory of value, he in fact based his entire investigation on the *principle of labour value*, upon which he then built his *theory of distribution*.

Ricardo's second great merit is to have given primacy to the problem of the *relative* shares of the different social classes in the *value* of the product, rather than to the distribution between them of *absolute* shares in the *in natura product* (the predominant vantage point found in Smith and in part carried over by Ricardo). Assume, says Ricardo, that the worker receives one and a half times as much food, clothing, and the like as previously. If at the same time the productivity of labour were to double (thus causing the value of products to be halved) we would say that the share (or 'real value') of wages has fallen

Even though the worker now obtains a greater number of *products in natura*, his *relative* share in the value of the social product has declined. Ricardo was the *first* to have introduced this method of posing the problem into science, and it was subsequently developed by Rodbertus and by Marx, the latter in his so-called 'theory of impoverishment'.

By posing the problem of relative distribution, Ricardo was able to clearly discern *the contradictions of class interests* in capitalist society. In complete accord with the characteristic features of his epoch and with his own social and class position, Ricardo laid special and persistent stress on the conflict between the interests of the landowners and the interests of the remaining classes in society: the fall in agricultural productivity and the rising price of corn lower the rate of profit and hold back the accumulation of capital, cause the position of the workers to deteriorate, and at the same time make the landlords exorbitantly rich. However, along with this basic contradiction, which dominated both the reality of early-19th-century England and his theoretical conceptions, we can find in Ricardo's writings the outlines of the great historical struggle that was beginning to take place between the bourgeoisie and the proletariat. In Smith's schema a rise in wages does not the slightest harm to the capitalists' interests, since it causes the price of the product to go up and is therefore paid for by the consumer. In Ricardo's scheme a rise in wages is not accompanied by a general rise in the product's price, but inevitably brings about a fall in profit: we see reflected in this law the irreconcilable contradiction of class interests between bourgeoisie and proletariat. Admittedly the workers can receive a greater quantity of food, clothing, etc., and thereby improve their lot at the same time as the capitalists grow rich. The apologists for capitalism, Carey and Bastiat, pointed to just this possibility of better conditions for the workers in their polemic against Ricardo's doctrine (see the Chapter on Carey and Bastiat, below). What they ignored, however, was Ricardo's doctrine of *relative* distribution: the working class cannot possibly raise its relative share in the value of the social product unless there is a drop in the relative share going to the capitalists. With Ricardo the Classical school abandoned Smith's naive views on the harmony of interests of different classes and openly acknowledged the existence within capitalist economy of deep class conflicts. But when, in the middle of the 19th century, these class contradictions acquired such force that they began to threaten capitalism's very existence, bourgeois economic science broke with Ricardo's theory. There then began the period of *disintegration of the Classical school.*

- 1 *Principles* p 94
- 2 *Ibid.* p 93
- 3 *Ibid* pp. 96-97
- 4 *Ibid.* p 94.
- 5 *Ibid.* p 105
- 6 *Ibid* p 102
- 7 *Ibid.* p. 102
- 8 *Ibid.* p 102 (Rubin's italics)
- 9 *Ibid* p 110
- 10 *Ibid.* p 111
- 11 *Ibid* p 120 (Rubin's italics)
- 12 *Ibid.* pp 120-21
- 13 *Ibid* p 122.
- 14 *Ibid* pp 101-02
- 15 *Ibid* p 103.