Theories of Value from Adam Smith to Piero Sraffa

Ajit Sinha

First published 2010
by Routledge
912–915 Tolstoy House, 15–17 Tolstoy Marg, New Delhi 110 001

Simultaneously published in the UK
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon, OX14 4RN

Routledge is an imprint of the Taylor & Francis Group, an informa business

Transferred to Digital Printing 2010

Typeset by
Star Compugraphics Private Limited
D–156, Second Floor
Sector 7, Noida 201 301

British Library Cataloguing-in-Publication Data
A catalogue record of this book is available from the British Library

ISBN: 978-0-415-56320-8

Theories of Value from Adam Smith to Piero Sraffa

Dedicated to my parents

Satyabhama Sinha and the late *Dr B.P. Sinha*

and also for

Anne and *Alice*

Preface

In the 'Preface' to the *Production of Commodities*, Piero Sraffa wrote:

> The investigation [in the *Production of Commodities*] is concerned exclusively with such properties of an economic system as do not depend on changes in the scale of production or in proportions of 'factors'.
>
> This standpoint, which is that of old classical economists from Adam Smith to Ricardo, has been submerged and forgotten since the advent of the 'marginal' method (Sraffa 1960: v).

It was Sraffa's bold claim of a paradigm shift in the history of economics that inspired me to read these four classics closely. I found two points in Sraffa's claim highly intriguing. First of all, any casual reader of classics is struck by the preponderance of dynamic analysis and concern for change in their treatises. So how could Sraffa ascribe to them a standpoint that does not admit change? What is this standpoint, after all? Second, why Marx is absent from the list? This book is a result of those preliminary questions.

In the modern version of what Sraffa has characterised as the 'marginal method' the values of commodities are determined by the techniques of production in use. However, those techniques are determined by the factor prices (or the distribution of income) that are themselves, in the last instance, determined by the subjective pattern of our demand for consumption goods, for example, if demand shifts in favour of relatively 'labour intensive' consumption goods then, given total labour supply, it will raise the wage rate and cause *changes* in techniques of production in the direction of 'capital intensity' and hence changes in the prices of goods. Thus the question: 'do the classical economists determine the distribution of income within the context of a theory of prices and resource allocation or do they take it as *given* from outside the system of price determination?' has become contentious among the historians of economic theory.

In the following pages, we keep this question in mind as we read the four classics. Though the book is inspired by Sraffa's *Production of Commodities*, it is neither designed to 'prove' Sraffa right nor someone wrong. It simply presents a close reading of the theories of value and distribution of, what I consider, the four most significant 'surplus approach' economists of the past, namely, Adam Smith, David Ricardo, Karl Marx and Piero Sraffa. The book is somewhat unique in its organisation, as it first presents in Part I my reading of the theories of value and distribution found in the four classics: the *Wealth of Nations*, the *Principles of Political Economy*, *Capital* and the *Production of Commodities*. In Part II, it critically engages with the major alternative interpretations and criticisms of their theories, starting from their contemporaries all the way to our contemporaries in almost chronological order. The attempt is to present a comprehensive account of more than 230 years of theoretical controversy on the subject. It is, however, not a work of encyclopaedic nature. Its aim is to throw new light on some old questions and introduce new and controversial interpretations in the literature on the subject.

The unconventional organisation of the book was chosen for two reasons. First of all, by separating my voice from several other contending voices as much as possible, I have tried to increase clarity in its presentation. Second, some readers may have only casual interest in the subject and not in the specific and intricate controversies among the historians of economic thought. Such readers could simply decide to read the first parts of the chapters and get a somewhat informed and coherent story without having to shift through the long controversies. I also hope that the separation of my critical survey of the literature from my reading of the classics would be particularly helpful to graduate students. In the end, I must warn my readers that in these pages my approach has been to read the classics and not the minds of their authors.

A substantial part of this book was written during my two years' visit to Collège de France, Paris, and I am really grateful to Professor Roger Guesnerie for giving me an opportunity to write a book of this nature. Roger has not only been highly encouraging but also very generous with his time whenever I needed to discuss certain theoretical issues or bounce off certain ideas. Professor Geoffrey Harcourt has been most supportive of me since the day we met in Australia more than a decade ago. It was his invitation to visit Cambridge University as a visiting scholar in 1998 that made it possible for me to read Sraffa's unpublished notes, without which this book would not have been possible. Geoff has read every word of this book throughout its progress and has been extremely kind with his encouraging words. Professors Samuel Hollander and John King have also read most parts of the book during its progress. Sam's and John's long and penetrating reviews of my chapters have been most valuable to me. I am also thankful to Professor Pierangelo Garegnani, the literary executor of Sraffa's unpublished papers, for allowing me to quote from Sraffa's unpublished notes and to the very friendly and helpful staff of the Wren library at Trinity College, Cambridge, where Sraffa-Papers are housed.

Over the years several scholars have read some parts of the draft of the book or discussed one issue or the other with me. Though it would be difficult to mention all those who I have gained from, I will be starkly remiss in my duty if I don't express my sincere thanks to Richard Arena, Carlo Benetti, Christian Bidard, Jérôme de Boyer, Murray Brown, Paul Cockshott, Daniel Diatkine, Michel-Stéphane Dupertuis, Gilbert Faccarello, Duncan Foley, Pierangelo Garegnani, Steve Keen, Heinz Kurz, Catherine Martin, Stéphane Moulin, G. Omkarnath, Antoine Rebeyrol, Paul Samuelson, Paul Zarembka, and an anonymous reviewer for the Routledge Press. In this context, I would especially like to remember late P.R. Brahmananda, with whom I had several long discussions and dozens of e-mail exchanges on the nature of Sraffa's work.

Jean Bernard, Maurice Bernard and Claude Henry have been very helpful in finding me the right contacts in France and I thank them for their help, without which this book might have remained just an idea. In the end, I thank my wife, Anne Maugier-Sinha, for the translations of some quotations from the original French texts and for putting up with me during these difficult years.

The reader will find that the book throughout engages critically with two leading contemporary combatants in the field of history of economic theory, namely, Pierangelo Garegnani and Samuel Hollander. It is because, apart from Sraffa, they are the two I have learnt most from.

Paris
March 2009

Contents

Chapter 1

The Theory of Value in Adam Smith's *Wealth of Nations*

Part I

Why Value?

In the 'Introduction and Plan of the Book' of the *Wealth of Nations*, Adam Smith does not mention anything pertaining to the question of value. The first four brief paragraphs explain the nature or the purpose of the book, which is to establish that the true nature of the wealth of a nation lies in its per capita real income and that it depends largely upon two things: (*i*) the productivity of its labour, and (*ii*) its division of total labour into productive employment and unproductive employment. Of the two, the first is much more important than the second. The rest of the five paragraphs are devoted to explaining the division of the work into five 'books'. The first book deals with the causes of improvement in labour productivity and the distribution of the total product among different classes. The second deals with the nature of capital and its investment in employing productive and unproductive labour. The third deals with the natural course of development of a nation and the various government policies that in one way or another favour one sector over others and thus interfere with the natural course of development. The fourth is a critique of two great economic doctrines: Mercantilism and Physiocracy. And the fifth and last book deals with the issues of public finance in great detail.

The problem of value or prices of commodities is nevertheless broached at the end of Chapter IV in Book I. The reader is entreated for 'patience and attention', for the 'subject' is 'in its own nature extremely abstracted' (p. 46, all the references to *WN* are from 1981 Library Fund edition). The topic occupies three full chapters from V to VII. His deliberation on the question of value is sandwiched between his deliberations on the causes that lead to increase in labour productivity and the distribution of total product among the three classes. It would appear from the design of the scheme that the problem of value had to be resolved before an understanding of the distribution of income could be developed. However, the questions that Adam Smith poses to himself at the end of Chapter IV suggest something entirely different. The problems for Chapters VI and VII are stated as:

> ... what are the different parts of which this real price is composed or made up, ...
>
> And lastly, what are the different circumstances which sometimes raise some or all of these different parts of price above, and sometimes sink them below their natural or ordinary rate; or, what are the causes which sometimes hinder the market price, that is, the actual price of commodities, from coinciding exactly with what may be called their natural price (p. 46).

Here, the first statement seems to treat prices as a dependent variable made up of various parts. It would therefore appear that the discovery of those parts would be essential for the investigation of the principle that regulates the exchangeable values of commodities. The second statement apparently confirms the methodology indicated above; here the causes for market prices deviating from their natural prices are identified with the circumstances that raise or sink the levels of its parts from their natural levels. Thus, apparently, while the natural price is determined by the natural levels of its parts, the subject matter of the determination of the natural levels of those parts, belongs to the investigation of the distribution of the total product. On the other hand, however, we frequently come across such statements as:

> In every society the price of every commodity finally resolves itself into some one or other, or all of those three parts; and in every improved society, all the three enter more or less, as component parts, into price of the far greater part of commodities (p. 68).

Here, price 'resolving' itself into three parts would imply that price is the independent variable while distribution is the dependent one. But reference to three parts as components of price implies that it is the other way round. Modern readers of Adam Smith are constantly faced with such 'contradictory' juxtapositions and it would be helpful for them to keep in mind that the epistemological foundation of Smith's theory is not necessarily the same as theirs. We will take up this issue at the end of our reading. At the end of Chapter IV, paragraph 12, Adam Smith writes: 'What are the rules which men naturally observe in exchanging them [commodities] either for money or for one another, I shall now proceed to examine. These rules determine what may be called the relative or exchangeable value of goods' (p. 44). By the phrase 'the rules which men naturally observe', Adam Smith could mean some kind of social convention that men naturally observe, such as the convention to drive on either the right or left side of the road. However, in paragraph 14, he goes on to say: 'In order to investigate the principles which regulate the exchangeable value of commodities, I shall endeavour to shew ...' (p. 46). Here, the word 'principle' apparently points in the direction of some sort of a theory, i.e., the 'investigation of the principles' may amount to a discovery of the variables and their relations that regulate the exchangeable value of commodities.

Measure of Value

Be that as it may, the *problematique* of Chapter V is introduced as 'what is the real measure of this exchangeable value; or, wherein consists the real price of all commodities', and is entitled, 'Of the Real and Nominal Price of Commodities, or of their Price in Labour, and their Price in Money'. As is obvious from the title, from the very outset Smith declares that the real price of a commodity is in terms of labour, whereas its nominal price is in terms of money. The question is: What does Smith mean by 'real price' and 'labour'? Before we investigate this question, it is important to note that for Smith the problem of distinguishing the 'real price' from 'nominal price' arises only in the context of comparison of value over a period of time or across spaces. As he writes:

> At the same time and place the real and the nominal price of all commodities are exactly in proportion to one another. The more

> or less money you get for any commodity, in the London market, for example, the more or less labour it will at that time and place enable you to purchase or command. At the same time and place, therefore, money is the exact measure of the real exchangeable value of all commodities. It is so, however, at the same time and place only (p. 55).

Thus the *problematique* of the chapter is apparently not concerned with the determination of exchangeable value of commodities in a market at any given point in time; rather, it is concerned with the measure of changes in the value of a commodity over a period of time in a given market. Smith notes that though the exchangeable value of every commodity is frequently estimated by the quantity of money, like any other commodity the money commodity is itself exposed to variation in its price. Thus when it comes to an estimation of the changes in the value of a commodity over a period of time, the money commodity turns out to be an unsatisfactory measure:

> [A] s a measure of quantity, such as the natural foot, fathom, or handful, which is continually varying in its own quantity, can never be an accurate measure of the quantity of other things; so a commodity which is itself continually varying in its own value, can never be an accurate measure of the value of other commodities (p. 50).

It is in this context that he proposes *labour* as the 'real measure' of value or the price of a commodity estimated in terms of labour as its 'real price'.

Now let us see why Adam Smith considers the price of a commodity estimated in terms of labour as its 'real' price. He argues:

> The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. What is bought with money or with goods is purchased by labour as much as what we acquire by the toil of our own body. That money or those goods indeed save us the toil. They contain the value of a certain quantity of labour which we exchange for what is supposed at the time

> to contain the value of an equal quantity. Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value, to those who possess it and who want to exchange it for some new production, is precisely equal to the quantity of labour which it can enable them to purchase or command (pp. 47–48).

Clearly the reason for labour to be the real price lies in the fact that stripped of all social relations, production remains a relation between the labourer and nature. In this relationship the labourer is the *subject*. He pays a price through toil or sacrifice of his comfort to acquire a commodity. This is the original price and thus the real price of the commodity to the *labourer*. It should be, however, also noted that in this context Adam Smith maintains that:

> What is bought with money or with goods is purchased by labour as much as what we acquire by the toil of our own body. That money or those goods indeed save us the toil. They contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity (ibid.).

This is a statement of a pure labour theory of value — a statement that will recur in the next chapter as well.

Now when one places the commodity within a social relation and asks what the real price of the commodity is, then it is not clear who is the subject of this question. Is it still the labourer who needs to acquire this commodity or the owner of the commodity who needs to exchange it for some other commodity or direct labour services? Usually the question is understood from the point of view of the owner of the commodity as the *subject*. If that is the case, then the switch in the position of the subject creates an apparent disconnect between Smith's reason for labour to be the real price and his insistence that the real price must be measured in terms of quantity of labour. Smith is thus guilty of switching his *subject* around on this question and thereby causing a great deal of confusion among his readers. For example, in the passage just quoted, his reference to 'those who possess it and who want to exchange it for some new production' switches the *subject* of the passage from labourer to the owner of the commodity. However, if the *subject* is the owner of a commodity who can exchange the commodity with any other commodity or money or services of labour, then it is not clear in what sense its exchange relation with labour can be privileged among all other exchange relations. Furthermore, for the commodity owner the value of labour is susceptible to as many variations as any other commodity. But Smith's real measure of value is supposed to remain constant over time and space. Confronted with this problem, Smith reverts back to his original position of positing the labourer as the *subject*:

> Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer. In his ordinary state of health, strength, and spirits; in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness.[1] The price which he pays must always be the same, whatever may be the quantity of goods

[1] This, of course, is based on the obvious implicit assumption that the ordinary intensity of work remains constant over periods of time. It should be noted that Smith takes account of differences in hardship and skill of labours at any given point of time and homogenises them by multiplying them by wage differentials observed in the market: 'There may be more labour in an hour's hard work than in two hours easy business; or in an hours application to a trade which it cost ten years of labour to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure either of hardship or ingenuity. ... It is adjusted, however, not by any accurate measure, but by the haggling and bargaining of the market, according to that sort of rough equality which, though not exact, is sufficient for carrying on the business of common life' (pp. 48–49). On the question of skilled labour, Whitaker, however, objects: 'The attempt to reduce skill to disutility by urging that the higher wages of skill are in proportion to the disutility of acquiring the skill is futile. The tendency of the wages of skilled labor to proportion themselves to the comparative disutility of that labor — i.e., to the sum of disutility daily felt plus some share or other of the past disutility cost of acquiring the skill — is so completely submerged beneath other forces that it is negligible. In addition to this, much skill is not acquired but is inborn without having entailed any disutility cost of acquisition to its possessor' (Whitaker 1904: 38). It should be noted that Adam Smith, rightly or wrongly, does not consider 'inborn' differences among human beings to be significant.

> which he receives in return for it. Of these indeed, it may sometimes purchase a greater and sometimes a smaller quantity; but it is their value which varies, not that of the labour which purchases them. At all times and places that is dear which it is difficult to come at, or which it costs much labour to acquire; and that cheap which is to be had easily, or with very little labour. Labour alone, therefore, never varying in its value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only (pp. 50–51).

From this position it is easy for Adam Smith to reject the argument that the value of labour is susceptible to as many variations as any other commodity:

> But though equal quantities of labour are always of equal value to the labourer, yet to the person who employs him they appear sometimes to be of greater and sometimes of smaller value. He purchases them sometimes with a greater and sometimes with a smaller quantity of goods, and to him the price of labour seems to vary like that of all other things. It appears to him dear in the one case, and cheap in the other. In reality, however, it is the goods which are cheap in one case, and dear in the other (p. 51).

Given that the labourers constitute a vast majority of the population and the *Wealth of Nations* was particularly concerned with the welfare of this particular group of people,[2] it made eminent sense for Adam Smith to measure the rise and fall in the values of commodities on the basis of whether the labourer

---

[2] As Adam Smith writes: 'Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged' (p. 96).

had to sacrifice more or less 'toil and trouble' to buy that commodity. The reader should note that Smith's proposed measure of value is entirely *objective* — how many hours a labourer must work to purchase a commodity at any given point of time is an objective measure, and is not affected by the differences in the subjectivities of labourers regarding how they feel about the work. It is also quite clear, however, that even when real wages are taken to be given from outside, the real value of commodities at any given point in time is not immediately determined, as wage is a basket of goods and thus how much labour-time a labourer must sacrifice to acquire any commodity (either belonging to or outside of that basket) can only be determined when the relative values or prices of all commodities against a *numéraire* are known at that point in time. For a modern reader, Smith's reversal of the *subject* position on this question amounts to using the wage basket as the *numéraire* for the price determination of commodities at any point in time.

Such reversals of the *subject* position are possible on this question due to the fact that quantitatively the answer remains the same whether it is looked at from the point of view of the labourer wanting to acquire a commodity through the sacrifice of his labour or whether it is looked at from the point of view of the owner of a commodity who directly or indirectly exchanges direct labour services for the commodity. For example, let us posit the labourer as the *subject* and ask the question: how much of labour must a labourer sacrifice to obtain a commodity? In a 'rude' society the value of a commodity must be equal to the time it takes to produce the commodity. If the labourer can produce 2 kg of corn in six hours, then the value of 1 kg of corn would be three hours of labour to him. But in a capitalist society, the labourer does not have direct access to production. He sells his labour for wage; say eight hours of labour a day for 2 kg of corn. Thus the value of 1 kg of corn is equal to four hours of labour to him. In this scenario, suppose that at period 1, one unit of a commodity x exchanges for 4 kg of corn. Thus the value of commodity x will be equal to 16 hours of labour to the labourer in period 1. Now suppose that in period 2 the worker still sells eight hours of labour for 2 kg of corn, but one unit of commodity