An essay on the labor theory of value

Willis B. Sheftall Jr.

Atlanta University
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WILLIS B. SHEFTALL, JR.

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An essay on the labor theory of value is anywhere a risky venture. In a thesis, such an attempt verges on pretension. The history of economic thought is filled with economists whose theories have run aground because of their inability to navigate the treacherous waterways of value theory. However, if a student is ever to master political economy, it is with value, at the very center of every economic system, that he must first grapple. With the labor theory as its vehicle then, the body of this essay represents an attempt to come to grips with the problem of value. Specifically, the objective of this essay is to review the origin and development of the labor theory of value with a view toward reaching a conclusion as to why it was generally discarded among Western economists as a primitive and discredited solution to the problem of determining value.

By way of an introduction, the first chapter deals with the beginnings of economic thought and the views on value expressed by Aristotle and Thomas Aquinas.

The second chapter is concerned with those theorists in whose writings can be seen the roots of the labor theory of value. The theories of William Petty, Richard Cantillon, and James Steuart are briefly discussed.

In the third chapter, the "father of economics" is discussed. Adam Smith's development of the labor theory of value and his resulting confusion is presented and analyzed.

Chapter Four deals with the founder of the classical school of economic theory—David Ricardo. How Ricardo extricated himself from Smith's confusion and developed
the variant that gained acceptance as the complete classical statement on value is the major concern here.

In Chapter Five, attention is turned to Karl Marx and the finalization of the labor theory of value. How his alternative conclusion to the classical statement gave rise to the theory of exploitation is also discussed.

The sixth chapter discusses the repudiation of the labor theory of value and the replacement of it by the marginal utility theory of value. Samuel Bailey is discussed as one of the earlier dissenters to the labor theory of value. Carl Menger is dealt with as the chief value theorist of the marginal utility school.

The final pages of the essay are devoted to drawing a conclusion from the implications of the previous chapters, and explaining the dismissal of the labor theory of value from Western economic theory. The opinions in this section are my own, and to some extent, they are exploitative of the freedom granted an essayist.

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CHAPTER I

A POINT OF DEPARTURE

The development of the labor theory of value indicates that the ultimatum of value—a just equation between a man's work and his wage—is assuming a more pertinent shape. This becomes obvious if one considers that the first statement which clearly pointed to labor as a determinant of value was not expressed until the seventeenth century.¹ What then of the concepts of value preceding this pronouncement? Basically, the ideas of two men held sway before the publication in 1662 of William Petty's Treatise of Taxes and Contributions. One of these men was a scientific philosopher of ancient Greece, the other, a Christian theologian of the thirteenth century. Both formed the basis of thought for their respective times, and afterward were much quoted and relied upon as authority on the question of value.

According to Aristotle, "All articles of property have two possible uses. Both of these uses belong to the article as such, but they do not belong to it in the same manner, or to the same extent. The one use is proper and peculiar to the article concerned; the other is not."² The proper use of a shoe, for example, is that of wear, says Aristotle. The improper or secondary use arises when the shoe is given exchange for money or food. The shoe is

¹The statement, "Labor is the Father and active principle of wealth, as lands are the Mother," was made by Petty in Treatise on Taxes and Contributions. C.H. Hull, ed., The Economic Writings of Sir William Petty, Reprints of Economic Classics, (New York: Kelley Publishers, 1963), p. 68.

made primarily for wear, and not to be an "object of bar-
ter."  

Were it not for the primary use, the shoe could not be used in such a secondary manner. With the fore-
go ing reasoning, Aristotle provided the basis for a dis-
tinction between value in use and value in exchange, a distinction which is a part of economic thought even to-
day.

In his discussion of the art of acquisition, Aris-
totle associates use-value with management of the house-
hold and the maintaining or acquisition of subsistence. 
This, he views, as both "necessary and laudable." Exchange-value, "is justly censured, because the gain in
which it results is not naturally made, but is made at the
expense of other men." Thus, Aristotle, in his explana-
tion of value, emphasizes value in use at the expense of
value in exchange—the corresponding implication being a
conception of value with a utility basis.

Another statement which points to a utility based
conception of value is found in a treatment of justice in
The Nichomachen Ethics. Realizing, if the proportion in
which things are exchanged is to be determined, that there
must be a "single universal standard of measurement;"
Aristotle states:

"This standard is in truth the demand for mutual services, which holds socie-
ty together; for if people had no wants,
...either there would be no exchange, or
it would not be the same as now."

1Barker, op. cit., p. 23.
2Ibid., p. 28.
3Ibid.
4D.P. Chase, trans., The Nicomachen Ethics of Aris-
5Ibid.
Interestingly enough, however, though he seems to regard exchange here as ultimately based upon wants, in other relevant passages dealing with the problem, Aristotle considers simultaneously that a "proportionate equality prior to exchange is essential."¹ A statement of the nature of this "proportionate equality" Aristotle does not make.

In the final analysis then, although he succeeded in distinguishing the types of value, Aristotle was unable to extend his explanation of value to a concrete theory of its origin. This is due in part to the limitations of his basically ethical consideration of value. Without a "conception of rational laws governing the phenomena of the distribution of wealth,"² Aristotle, in common with other ancient philosophers, was not able to break from his mind the close connection between economic relations and justice, that is, right and wrong. It is also conceivable that his explanation of value did not reach fruition because of his justification of slavery and the conflicting admission that the gain from the exchange of goods was produced by slaves at the expense of the slaves themselves. Aristotle's justification of slavery could possibly have been the factor which prevented him from seeing the proportionate equality of labor as the essential priority for exchange. Despite what might be considered his shortcomings, Aristotle was still of great importance because of his influence upon later thinking on the subject of value.

It is in the thirteenth century, as his works were translated, that Aristotle's influence upon the school-

men of the Church becomes evident. His writings gave support to their doctrine of "a just exchange,"¹ that is, exchange of values of equality, and were in repeated use as a source of authority. Chief among the thirteenth century philosophers of the Church was Thomas Aquinas who, in the *Summa Theologica*, put forth the most important treatise of economic problems to be found in canonist doctrines. As did Aristotle before him, Aquinas discussed value, and the subsequent "just price," in connection with the general subject of justice.²

Aquinas, like most medieval thinkers, saw only two factors of production, land and labor. Although the ultimate source of wealth, land required human labor to wrestle from it that which it could provide. Because labor was the one element in production which depended upon human will (a logical preoccupation of theologians), it became, in the words of Sir William Ashley, "the centre of their [Aquinas and the canonists] doctrines."³ Since all wealth resulted from the employment of labor upon the raw materials of nature, the acquisition of wealth by individuals was justifiable only if there was proof of the engagement of their labor. This conception of labor as both cause and justification for possession of wealth⁴ runs consistent throughout the writings of Aquinas and canonist doctrine in general. Its influence is seen most clearly in Aquinas' statement on the "just price" of goods.

Realizing that market price did not necessarily

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¹Sewall, *op. cit.*, p. 12.
²Ibid., p. 13.
⁴Ashley sees a very close resemblance between this canonist doctrine and that of the modern socialists.
correspond to true value, that is, that value determined by labor, Aquinas, in order to justify exchange, presented the concept of just price which was to be a monetary expression of true value. "The just price of an article," then, "included enough to pay fair wages to the worker—that is, enough to enable him to maintain the standard of living of his class."¹ It was not mathematically precise. Instead, it depended upon an estimation, "so that a slight addition or subtraction would not seem to destroy the equality of justice."²

Aquinas' view of value, unlike that of Aristotle's which laid great emphasis upon demand, stressed objectivity. The true value of an article, the subsistence requirements of labor, is external to the will of either the buyer or seller. It is attached to the article itself. The nature of its existence, whether liked or not, by buyer or seller, should be recognized in any matters of exchange.³

As true value and just price found their basis in a subsistence conception of labor, so did profits. Consequently, profits from trade, to the extent of their justification were considered as "quasi-wages." In other words, they were a reward for the labor of transport. Also, according to William Ashley, "the profits of the exchanger," as well, "so far as they were justified, were the reward for the labor of carrying the money from place to place."⁴ The significance of these two illustrations is that they show, for Aquinas and subsequent canonist

²Ibid., pp. 117-118.
³Ibid., p. 135.
⁴Ashley, op. cit., p. 395.
thinking, the true value of an article, on which the just price is based, had to be expressed in terms of some estimation of labor.

Thus, with a view toward a labor theory of value, the thinking of Thomas Aquinas must be regarded as an improvement in analysis within the confines of a particular frame of reference influenced more by ethical considerations than by economic ones. Like Aristotle, Aquinas included his ideas on value in a treatment of the general subject of Justice. Consequently, Aquinas' views, in common with those of Aristotle, on matters of economics, are somewhat clouded by the abstractions of truth, justice, right, and wrong. This ethical influence is apparent in such terms as the "just price," "fair wages," and "true value." It is for this reason that Aquinas is not included in the ancestry of the labor theory of value discussed in the first chapter.

While neither Aristotle nor Aquinas was directly linked to the development of the labor theory of value, the influence of their writings prior to the first half of the sixteenth century could not be overlooked. Without recognition of the concepts of these two men, the historical impact of the founders of political economy—the shift of emphasis from the ethics of value to the economics of value—would be significantly lessened.
CHAPTER II
THE ROOTS

It is with the shift of emphasis from the ethics of value to the economics of value that we begin to trace the development proper of the labor theory of value. This shift of emphasis on the part of economic thinkers beginning with Petty, was, to a great extent, a theoretical reflection of the change in the material conditions of life which had begun to evolve with the breakdown of the "Catholic-feudal system,"\textsuperscript{1} during the fourteenth and fifteenth centuries. While this event characterized the first phase of modern times, the all but spontaneous disintegration of the medieval structure in the sixteenth century and subsequent ascendancy of mercantilism, both as a practice and theory, characterized the second phase.\textsuperscript{2} The significance of these two events is twofold. First, the loss of influence by the Church, due to the breakdown of the feudal system, made it possible for students of political economy to separate economic activity from the world of religion. Economic matters could be discussed without the moral overtones so prevalent in Aquinas. Second, the collapse of the medieval structure, followed by the rise of mercantilism, freed men from the negative connotation of the idea of gain. Participation in commerce and the acquisition of wealth became quite acceptable endeavors; so acceptable that the pendulum of power swung to the side of men dealing in trade. The dominant school of economic thought during


\textsuperscript{2}Ibid., pp. 30-35.
this period—mercantilism—makes this clear through the essays of its chief spokesmen, such as Thomas Mun, Edward Misselden, and Gerard de Malynes.¹

However, the pendulum begins to swing once again in the seventeenth century. Manufacture begins to expand in England, especially in textiles. Though not removed from practice, the laws favoring trade monopolies and protectionism begin to lose influence due to factional politics in government.² It is against this background of change, in material conditions, that Sir William Petty (1623–1687), representative of a new line of thinking, makes his entry into the stream of economic thought and subsequently his contribution to the development of the labor theory of value.

Petty's views, as they were related to a theory of value, are found in his earliest economic writing—A Treatise of Taxes and Contributions, published in 1662.³ It is from his discussion of rent that his theory of value is derived. Speaking of corn and money rent, Petty says,

...that all things ought to be valued by two natural Denominations, which is Land and Labour; that is, we ought to say, a ship or garment is worth such another measure of Labour; forasmuch as both ships and garments were the creatures of Lands and men's Labours thereupon: this being true, we should be glad to find out a natural Par between Land and Labour, so as we might express the value by either of them alone as well or better than by

³Hull, op. cit., p. 3.
both, and reduce one into the other as easily and certainly as we reduce pence into pounds.

Even a very superficial observation points to a duality in Petty's determination of the source of wealth and value. This duality is even more explicit in the statement, "that Labour is Father and active principle of Wealth, as Lands are the Mother." However, closer observation indicates that by making labor the "active principle of Wealth," and thereby the dominant factor, Petty strongly implies that labor is the element into which land can "easily and certainly" be reduced. Further evidence of Petty's theory of value having been a labor theory of value is found in the following:

I say, that when this man hath subducted his seed out of the proceed of his Harvest, and also, what himself hath both eaten and given to others in exchange for clothes, and other Natural necessaires; that the remainder of Corn is the natural and true Rent of the land for the year.

Not only does Petty here espouse a theory of differential rent more than a century and a half before Ricardo, but he also expresses a crude labor cost-of-production theory.

In search of the true proportion between the values of corn and silver, Petty, indicating again a labor theory of value, says:

And forasmuch as possible there may be more Art and Hazard in working about the Silver, than about the Corn, yet all comes to the same pass; for let a hundred men work ten years upon Corn, and the same number of men, the same time,

1Hull, op. cit., pp. 44-46.
2Ibid., p. 68.
upon Silver; I say, that the neat proceed of the Silver is the price of the whole neat proceed of the Corn, and like parts of the one, the price of like parts of the other.\footnote{Hull, op. cit., p. 43.}

Here, Petty uses labor time as the balancing factor in determining the true proportion between the values of silver and corn. Obviously, another problem of duality has arisen. In one instance, Petty indicates a theory of value based upon the subsistence cost of labor, while in another he implies a theory of value with labor time as the determinant of the value of commodities.\footnote{Edmund Wittaker, Schools and Streams of Economic Thought, (Chicago: Rand and McNally and Co., 1960), pp. 58-61.} Even with the dualities, however, Petty's contribution, as the founder of political economy, to the development of the labor theory of value was still of great significance. His early statements concerning value go far in influencing Adam Smith and later economic thought—the duality of labor time and cost of labor being a sizable part of Smith's confusion.

The thoughts of another pre-classical writer on the subject of value served as a source of influence for Smith and later labor-value theorists—Richard Cantillon (1680-1734). His \textit{Essai sur la nature du commerce en général} was considered by William Stanley Jevons as the first complete treatise on economics published in the "Cradle of Political Economy."\footnote{Ibid., p. 71.} In the first chapter of this work, Cantillon restates the duality that had existed for Petty by saying that land was the source and labor the producer of wealth.\footnote{Richard Cantillon, \textit{Essai Sur La Nature Du Commerce En General}, ed. Henry Higgs, Reprints of Economic Classics, (New York: Augustus M. Kelley, 1964), p. 3.} The real or "intrinsic" value of an item, according to Cantillon, was that measure of land and labor which entered
into its production. He viewed fertility and quantity as the factors with regards to land and labor respectively.\(^1\)

Like Petty, Cantillon attempts to discover a par between land and labor. In doing so, he equates a certain quantity of labor with a certain produce of land, whereas Petty reduced both factors into the common denominator of labor. However, Cantillon's conclusion "that the daily labour of the meanest Slave corresponds in value to double the produce of the Land required to maintain him,"\(^2\) while not making a clear case for it, does most definitely point to an origin of the labor theory of value.

Further evidence of the beginnings of a labor theory of value in *Essai sur la nature du commerce* is seen in Cantillon's example of the value of a watch spring, where "...le travail fait ici la valuer presque entiere de ce Ressort."\(^3\) That is to say, labor is the sole source of value. Basically Cantillon, as Eric Roll points out, was repetitious of Petty in thought, though different in form.\(^4\) His importance lies in the fact that he represents another chronological link in a chain of thought which, when connected, will span the development of the labor theory of value.

The next link in the chain and the final figure in this chronology leading up to Adam Smith and modern economics was James Denham Steuart (1712-1780).\(^5\) For Steuart,

\(^{1}\) Cantillon, *op. cit.*, p. 29  
\(^{2}\) Ibid., p. 35.  
\(^{3}\) Ibid., p. 29.  
\(^{5}\) It is significant to note that Steuart was generally mercantilist in outlook. As a matter of fact, it is largely in refutation of the mercantilist views expressed in *An Inquiry into the Principles of Political Economy* that Adam Smith wrote *The Wealth of Nations*. It seems at least in-
the real value of a commodity was determined by (1) the labor time involved in the production of the commodity, (2) the cost of the subsistence of the laborer, and (3) the value of the materials first employed in the production of the commodity. What Steuart developed here, as had Petty, was a labor quantity theory on the one hand, and a subsistence theory on the other. The determination of value by the labor time involved was to be based on the average workman doing an average day's work. Included in the laborer's subsistence were the expenses associated with supplying him with the necessary food, clothing, shelter, and tools of his profession. This was to be based upon an average. To the extent that the manufacturer's price reflects these three factors, it is reflective of real value. While the market price cannot go below the real value, it can and does, according to Steuart, rise above it. From this difference in price and value comes surplus, that is, profit. It is the mercantilist concept of surplus—profit—that Adam Smith takes issue with in the *Wealth of Nations*. Under the general subject of exchange he specifies the factor, other than real value, involved in price determination—"profit upon alienation."^2^

consistent that Steuart's thinking would, in general, appear to be in reaction to the changes in the mode of economic activity of eighteenth-century England, while acute and in step with change in the specific case of a value theory. Though elsewhere disagreeing with him, Smith does draw upon Steuart for the development of his own theory of the origin of value.


^2^Steuart, *op. cit.*, p. 239.
that surplus arises.

Steuart, like Petty and Cantillon before him, introduced in his discussion of the factors of production and the basis upon which the exchange of the commodities produced takes place, the two elements necessary for the formulation of the labor theory of value—the quantity of labor and the value of labor. These three founders of political economy were the roots through which the growth of the labor theory of value was generated. It is from their thoughts on value that Adam Smith gains his footing. It is also from the duality implicit in the above mentioned elements that he, in confusion, looses his footing. In short, the writings of Petty, Cantillon and Steuart provide the basis for Smith's theory of value as well as the source of its difficulty.
Measured by any yardstick, 1776 must be considered one of the most eventful years in the drama that constitutes man's history. In that year, the American colonies declared their independence from England. James Watt's invention of the steam engine ushered in the Industrial Revolution. Also, An Inquiry into the Nature and Causes of the Wealth of Nations, the sun in the "dawn of a science," was published. Not only was Wealth of Nations Adam Smith's magnum opus, but it also became the fons et origo of subsequent economic inquiry. It is in this masterwork that Smith set forth his views on the subject of value.

Distinguishing between value in use and value in exchange Smith stated the following:

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

2 Roll, op. cit., p. 138.
Of the two meanings of value, that in use and that in exchange, Smith concerned himself exclusively with the latter. Consequently, in developing the labor theory of value, he was interested only in what determined the exchange value of commodities.

Building upon the foundations laid by Petty, Cantillon, and Steuart, Smith wrote, "The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes."\(^1\) Going further, Smith stated that "labour...is the real measure of the exchangeable value of all commodities," and that, "the value of any commodity," exchanged by a person for other commodities," is equal to the quantity of labour which it enables him to purchase or command."\(^2\)

However, the rule of value that Smith derived from labor is at variance with itself in a comparative consideration of the two stages of economic development as he describes them. Specifically,

In that early and crude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labor necessary for acquiring different objects seems to be the only circumstance which can afford my rule for exchanging them for one another.\(^3\)

If it takes two hours of labor to produce commodity "A", while the production of commodity "B" involves only one hour of labor, then says Smith, two units of "B" must exchange for one unit of "A" if proportionality is to be achieved. Thus in the original state of things, the quantity of labor involved is both the determinant and the

\(^1\)Smith, *op. cit.*, p. 1 of Introduction.

\(^2\)Ibid., p. 30.

\(^3\)Ibid., p. 47.
measure of the exchange value of commodities. Also in this particular state, "the whole produce of labour belongs to the labourer."\(^1\) It is this "quantity of labour commonly employed in acquiring or producing any commodity" that determines the "circumstance which can regulate the quantity of labour which it ought commonly to purchase, command or exchange for."\(^2\)

With the above in mind, it follows that the real price of any commodity is what it really costs in terms of the toil and trouble involved in its acquisition. Therefore, when an exchange of any two commodities takes place, it does so on the basis of an equality of values, that is, the value of a certain quantity of labor contained in "A" exchanges for an equal value of a certain quantity of labor contained in "B". According to Smith, then, "Labour was the first price," and at the same time, the "original purchase-money that was paid for all things."\(^3\) In short, labor was both the determinant and measure of the "real price", and therefore value, in the original state of things. Beyond the original state, however, Smith wrote:

As soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people, when they will supply with materials and subsistence, in order to make a profit by the sale of their work, or by what their labour adds to the value of the materials. In exchanging the complete manufacture either for money, for labour, or for

\(^1\)Smith, op. cit., p. 47.
\(^2\)Ibid., pp. 47-48.
\(^3\)Ibid., p. 30.
other goods, over and above what may be sufficient to pay the price of the materials, and the wages of the workmen, something must be given for the profits of the undertaker of the worker who hazards his stock in this adventure. The value which the workmen add to the materials, therefore, resolves itself in this case into two parts, of which the one pays their wages, the other the profits of their employer upon the whole stock of materials and wages he advanced.

What Smith describes in the foregoing passage is the process of capital accumulation, a new state of things, in which the "whole produce of labour does not always belong to the labourer." On the contrary, the laborer "must in most cases share it with the owner of the stock which employs him." Labor alone no longer regulates value, that is, "the quantity which it ought commonly to purchase, command, or exchange for." An additional quantity---profit---now shares this function.

In an improved society, such as with the case where capital accumulation has occurred, all land has become private property, and the propensity to exchange has given rise to a great degree of division labor, price is composed of profit, rent, and wages. Still, says Dr. Smith, "The real value of all the different component parts of price...is measured by the quantity of labour which they can, each of them, purchase or command." Had Smith stopped here, his own difficulty in developing an internally consistent theory of value, as well as the difficulty that its inconsistency has presented for students

1Smith, op. cit., p. 48.
2Ibid., p. 49.
3Ibid.
4Ibid.
5Ibid., p. 50.
of classical political economy, would have been considerably less severe. However, he wrote two pages later:

As the price or exchangeable value of every particular commodity, taken separately, resolves itself into some one or other, or all of those three parts [wages, rent, and profit]; so that of all commodities which compose the whole annual produce of labour of every country, taken complexly, must resolve itself into the same three parts, and be parcelled out among different inhabitants of the country, either as the wages of their labour, the profits of their stock or the rent of their land. The whole of what is annually either collected or produced by the labour of every society, or what comes to the same thing, the whole price of it, is in this manner originally distributed among some of its different members. Wages, profit, and rent are the three original sources of all revenue as well as of all exchangeable value.\(^1\)

At this point of inconsistency in Smith's views, the modus operandi employed so far in this chapter changes. In the preceding pages, the concern has been merely to present, in brief form, the labor theory of value as developed by Adam Smith. The remaining pages of the present chapter represent an attempt at summary analysis of Dr. Smith's development, concentrating upon the confusion at the base of its construction as well as the contradictions inherent in its superstructure.

The essence of Smith's confusion in determining exchange value stemmed from his inability to clearly distinguish between cause and determinant of value, on one

\(^1\)Smith, op. cit., p. 52.
hand, and measure of value, on the other. Lacking the abstract notion of labor power, he confused the amount of labor, or labor quantity, and the value of labor. The distinction between the two was not necessary when Smith considered things as they were in primitive society. At that stage of exchange, the amount and value of labor were equal. Since all workers at that stage produced and sold their own products, the value of a commodity could be determined either by the amount of labor it could command or by the necessary labor time involved in its production. A specific quantity of living labor exchanged for an equal amount of materialized labor. Although present, Smith's confusion concerning exchange value does not here reveal itself. Because the worker is still both producer and seller, the value of labor can serve as the measure of the value of commodities as well as the quantity of labor since the value of labor is inclusive of an equal quantity of materialized labor.

It is when Smith considers the determination of exchange value within the framework of an improved society, one in which there is a stock of capital in existence, that the fact of his confusion reveals itself in the form of inconsistencies and contradictions.

Smith's confusion over the measure of value and the source of value gave rise to his most glaring inconsistency—the juxtaposition of what Paul H. Douglas calls the


2For an illustration of this assertion, refer to pages 15 and 16 of this chapter.

3Materialized labor refers to that living labor which is embodied in a commodity. For an example, if it takes two hours of labor, living labor, to produce a shoe, then that shoe when produced will represent two hours of materialized labor.
"labor-cost and labor-command theories of value." In discussing Smith's failure to discern the difference between these two theories, Mr. Douglas, in speaking of the original state, says:

Thus, if five hours or "units" of labor were expended on the average to produce a pair of shoes, then this pair of shoes would exchange for a price which would be sufficient to hire other labor for five "units" also. The value of the pair of shoes would then be the same in terms both of labor cost and labor command.

Considering the situation once capital has accumulated, Douglas continues:

But if rent and profits were deducted from the prices at which all of the articles sold, there would then be a discrepancy between the two measures of value. For if commodities exchanged according to the amount of labor embodied in them, then this would be less than the amount of labor which they could command. Thus, if the share of labor amounted only to two-thirds of the total product, then the workers who expended the five units of labor required for the shoes would receive in return commodities in which only three and one-third labor units were contained. The given pair of shoes would indeed sell in the market for a price which would enable it to purchase seven and one-half units of labor. This would be its value from the standpoint of labor command; but from the standard of labor cost, it would be but five units. There is thus a very real difference be-

1Hollander, op. cit., p. 88.
2Ibid., p. 90.
tween the labor cost of commodities and the command of these commodities over labor. This very real distinction was not perceived by Smith.

Expanding upon Mr. Douglas' analysis, it becomes apparent that once Smith discovered that labor and landed capital now confronted each other as owners of commodities, he believed that the rule of value which equated materialized labor and living labor in exchange had ceased to apply. Since commodities no longer exchanged proportionally to the quantity of labor which they represented, Smith concluded that the labor time involved in the production of a commodity was no longer the measure by which the exchange value of that commodity was to be determined. In actual fact, however, the identity of labor quantity and the value of labor no longer existed, thereby causing the exchange value of commodities to be indeterminable by the value of labor.

Drawing the conclusion that labor time no longer determined value, Smith turned to a cost of production theory which included the wages of labor, rent of the landlord, and the profit of the entrepreneur. However, in order to establish these three factors as the determinants of the exchange value of commodities, Smith had to contradict his previous propositions. This fact, more than any other single fact, deprives his work in the Wealth of Nations of unity.

In error, Smith employed sources of revenue to function as determinants of value, an action which prob-
ably represented an attempt to extricate himself from his own confusion where revenue and exchange value were concerned. He failed to see rent and profit as merely the distribution and appropriation of value, representative of the surplus created by the laborer. The inconsistency of Smith's views is also apparent on the question of the wages of labor.\(^1\) Making wages a source of value implies that wages are capable of creating value. On the contrary, as Smith had already pointed out, it is labor that creates value; while wages merely represent that portion of the value thus created which labor is allowed to appropriate.

There are other inconsistencies and contradictions throughout Smith's writings, such as what constituted productive labor, the propensity to exchange or the division of labor—which was first, and the difference between the "real" and the "natural" price of commodities.\(^2\) However, the concern here has been to discuss only those difficulties which are essential to an understanding of the impact of Adam Smith upon the development of the labor theory of value.

With all its faults of inconsistency and contradiction, however, Adam Smith's discussion of value is of singular importance. Although Petty, Cantillon, and Steuart laid the foundations, it was Smith who erected the final structure. It is in the views of Smith that all subsequent development of the labor theory of value found its roots. Smith's difficulty in determining the exchange value of commodities, that is, his confusion of labor time and the value of labor, provided the contradiction

\(^1\)Smith, *op. cit.*, Book I, pp. 61-65.
which served as the mutual base for the two opposing strands of the labor theory of value which developed thereafter.
CHAPTER IV
THE COMPLETE CLASSICAL STATEMENT

The first strand of the labor theory of value which was developed directly from Adam Smith's confusion on the subject is seen in the argument advanced by David Ricardo (1772-1823). Very successful as a stockbroker, Ricardo was able to retire early from active participation in business, devoting the rest of his short life to economic inquiry. The chief results from this latter-day concern are found in The Principles of Political Economy and Taxation, originally published in 1817.¹ It is in this classic of economic doctrine that Ricardo presented his views on value.

Like Adam Smith before him, Ricardo felt that although utility was essential to commodities, it was not the measure of their value in exchange. Assuming the possession of utility, the exchange value of commodities is derived from "their scarcity, and from the quantity of labour required to obtain them."² Expanding upon this point, Ricardo stated:

There are some commodities, the value of which is determined by their scarcity alone. No labour can increase the quantity of such goods, and therefore their value cannot be lowered by an increased supply. Some rare statues and pictures, scarce books and coins, wines of a peculiar quality, which can be made

only from grapes grown on a particular soil, of which there is a very limited quantity, are all of this description. Their value is wholly independent of the quantity of labour originally necessary to produce them, and varies with the varying wealth and inclinations of those who are desirous to possess them.

The commodities of the just mentioned category, Ricardo concluded, were relatively small in number. The exchange value of the vast majority of commodities was derived from the quantity of labor involved in their production. In Ricardo's words,

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

Of the two contradicting theories developed by Smith—that of value determined by the value of labor itself and that of value determined by the amount of labor involved—Ricardo obviously chose to argue the latter. A most clear picture of the problem that confronted Ricardo in his argumentation and the possible solutions to that problem is drawn by Eduard Heiman in the following passages:

...Smith's reduction of value to the cost of production was logically inconsistent. Costs are naturally heterogeneous and incommensurable. No sum total of the cost factors (land, capital, and the various kinds of labor) can be arrived at unless they are reduced to a common denominator. Money is not such a common denomina-

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1Ricardo, op. cit., p. 5.
2Ibid.
tor; to attempt to express the cost factors in terms of money is, in effect, only to face the value problem in another form. For in order to know how the factors of production can sell for money, we must first know what makes them and money commensurable. The commensurability of the factors which Smith naively wanted to add up is Ricardo's value problem.

Heiman continues:

Two logically possible solutions present themselves. The first is the reduction of the three kinds of cost factors to a fourth element underlying them all, utility, which is common to all cost factors and goods. This, the main road of later analysis, was however, blocked for the time being by Smith's economic paradox, i.e., the apparent inverse proportion between value (price) and utility. The other solution is the reduction of two of the three factors to the third. This more elementary factor, from which the other two appear to be derived, is labor, and Ricardo's system is the labor-value theory, that is, the explanation of how labor value underlies the other factors of production and all economic relationships as their organizing principle.

In his explanation of how labor was the underlying factor in the productive process, according to Edwin Cannan, "Ricardo was led on to argue that Adam Smith ought to have held to the theory of value which he put forward for the primitive state of things." Specifically, Ricardo

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2Ibid.
believed it to be incorrect,

...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...

Ricardo did feel that it was 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.

Having thus uncovered the essence of Adam Smith's confusion, Ricardo goes on to say, with reference to capitalist conditions of production, 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 labor is assisted.

It is in this statement that Ricardo expressed the essence of his advancement over Smith and therefore his addition to the classical development of the labor theory of value. By applying the labor-quantity theory to cap-

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1Ricardo, op. cit., pp. 8-9.
2Ibid.
3Ibid., p. 12.
italist, as well as primitive conditions, Ricardo established its universality as the underlying factor of production and consequently the center of classical economic theory. Having done so, however, he came face-to-face with "the difficulties with which the labor theory has had to struggle throughout its history."¹ A discussion of those difficulties and how Mr. Ricardo's theory fared in their subsequent encounter should be illuminating.

The first difficulty or problem of Ricardo's labor theory of value was related to monopoly price. By definition, monopoly price is different from labor-value price, or the wages of embodied labor. The latter is a cost price and prevails only under those conditions which are peculiar to pure competition. Monopoly price, on the other hand, is a price above the cost of production, the maintenance of which is made possible by a monopoly's ability to limit supply.² Representative of the classical school of thought, Ricardo concerned himself only with the determination of the exchange value of those commodities "on the production of which competition operates without restraint."³ Consequently, monopoly was placed outside the realm of economic inquiry. Rather than being resolved, the problem of monopoly price was simply removed from consideration.⁴ Characteristically, Ricardo categorized

¹Heiman, op. cit., p. 93. In analyzing Ricardo's theory of value, I have adopted to a great extent, the method employed by Mr. Heiman, who, in my estimation, handled the subject with a degree of brevity and clarity not sacrificial of scholarship.

²Heiman, op. cit., p. 93.

³Ricardo, op. cit., p. 6.

⁴It should be noted, however, that the discovery of a solution to the problem of monopoly price versus labor-value price was not as imperative during Ricardo's time as it became thereafter. Ricardo's observations were of capitalist conditions in the competitive stage of develop-
such commodities as old wines, rare paintings, and scarce books as insignificant to the theoretical unity of his system.¹

The second problem which confronted Ricardo's labor theory of value was that of rent. For the solution, he applied the law of diminishing returns. Implicit in the application of this engineering law was the presupposition that agriculture began on the best lands and extended to the poorer lands. Specifically, as the best lands (those of greater relative fertility) were more intensely cultivated, the yield increase became less than proportional to the costs, thereby causing poorer lands to be brought in use.² In the words of Ricardo,

The most fertile and most favourably situated land will be first cultivated, and the exchangeable value of its produce will be adjusted in the same manner as the exchangeable value of all other commodities, by the total quantity of labour necessary in various forms, from the first to last, to produce it and bring it to market. When land of an inferior quality is taken into cultivation, the exchangeable value of raw produce will rise, because more labour is required to produce it.³

Within this statement are the elements which Ricardo used to prove the validity of the labor theory of value as it related to land rent. To begin with, he considered fertility and location to be the general causes of unequalment. A wrestling of the problem posed by monopoly price had to await Karl Marx, who, writing fifty years later, reflected the transition from competitive capitalism to monopoly capitalism.

¹Ricardo, op. cit., pp. 5-6.
²Heiman, op. cit., pp. 94-96.
³Ricardo, op. cit., p. 32.
costs. Then by basing price upon the costs of production (including transportation) encountered on the marginal land, Ricardo enabled himself to define rent as the difference between the output resulting from the employment of two equal quantities of labor and capital. This differential rent, then, represented a form of surplus in that it did not constitute a necessary pre-condition to production. To the contrary, Ricardo saw it as "the payment for the saving of labor effected under favorable conditions of productions."¹

The third problem which Ricardo struggled with in the formulation of the labor theory of value was capital profit. It was here that the imperfections of his theory were most pronounced, a fact which Ricardo himself recognized.² Indicating the identity which he, in common with other classical economists, saw between profit and interest, Ricardo held that the rate of interest was "ultimately and permanently governed by the rate of profit,"³ because no interest could be "regularly paid except out of profit."⁴

Instead of inquiring into the nature of capital and profit, Ricardo merely attempted to discern the compatibility of capital profit with the labor theory of value. Dividing the whole value of commodities into two portions ---profits and the wage fund---Ricardo hypothesized:

Supposing corn and manufactured goods always sell at the same price, profits would be high or low in proportion as wages were low or high. But suppose corn to rise in price because more labour is necessary to produce it; that cause will not raise the price of manufactured goods in

¹Heiman, op. cit., p. 97.
²Ibid., p. 99.
³Ricardo, op. cit., p. 171.
⁴Heiman, op. cit., p. 98.
the production of which no additional quantity of labour is required. If, then, wages continued the same, the profits of manufacturers would remain the same; but if, as is absolutely certain, wages should rise with the rise of corn, then their profits would necessarily fall.

With the introduction of the concept of the "whole value of a commodity, Ricardo made profit an addition to labor value, rising and falling in an inversely proportional manner to it. The identity between price and labor value, that is, the quantity of labor involved in production, has been replaced by a certain proportionality. In other words, price is no longer a reflection of wages paid, merely proportional to them. Thus in exchange,

<table>
<thead>
<tr>
<th>Wage fund of &quot;A&quot;</th>
<th>$50</th>
<th>Wage fund of &quot;B&quot;</th>
<th>$100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit of &quot;A&quot;</td>
<td>$5</td>
<td>Profit of &quot;B&quot;</td>
<td>$10</td>
</tr>
<tr>
<td>Price of &quot;A&quot;</td>
<td>$55</td>
<td>Price of &quot;B&quot;</td>
<td>$110</td>
</tr>
</tbody>
</table>

then, "A" and "B" will exchange at a two-to-one ratio, so that two units of "A" will equal one unit of "B". This is only valid, however, if profit is calculated upon working capital, that is, the wage fund. If fixed capital is present, the situation is altered. Ricardo failed to recognize this alteration. That is, he did not see that the presence of capital prevented price from reflecting labor value, or being proportional to wages paid. Ricardo's attempt to escape from this problem is summarized by Dr. Heiman in the following statement:

Ricardo extricated himself from the difficulty by asserting that the

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1Ricardo, op. cit., p. 55.
2Heiman, op.cit., p. 98.
3Ibid., pp. 98-99.
various branches of industrial production use fixed capital in approximately equal proportion to their working capital, so that the deflection of the price would be approximately the same everywhere, and one would still be able to say that prices correspond to labor values.\(^1\)

Heiman concludes, however, that Ricardo's explanation proved inadequate in the face of unequal technological progress in different branches of production.\(^2\) Other inadequacies of Ricardo's labor theory of value are indicated in the following criticisms. First, the relative value of commodities is not governed only by the amount of labor embodied in them but also by the length of time required in their transport to the market. Second, the unequal rates of capital durability and turnover of the wage fund are relevant to the relative value of commodities because of the element of time involved in the productive process. Third, by saying that supply and demand in the market place are also forces upon which labor value depends,\(^3\) Ricardo, in effect, jettisons the labor theory of value.

Whether David Ricardo was "the evil genius who switched Political Economy on to the wrong lines, diverting it to a harsh barren and inhuman orthodoxy," or "the greatest economist of all times,"\(^4\) has not been the concern of this chapter. Rather, the endeavor has been to put Ricardo in his proper place in the development of the labor theory of value. To that end, Ricardo represented an improvement over Adam Smith.

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\(^1\)Heiman, op. cit., p. 99.
\(^2\)Ibid.
\(^3\)Ricardo, op. cit., p. 61.
He discovered the essence of Smith's confusion and out of it he developed what is commonly called "the pure labor theory of value." How pure a theory Ricardo developed has been questioned in the previous pages. Pure or not, however, the labor theory of value, as advanced by Ricardo, does represent the complete classical statement on the subject.
CHAPTER V

AN ALTERNATE CONCLUSION

The outstanding contribution of the classical political economists was the discovery of the ruling law of economic activity—the law of value. According to this law,

...under competitive conditions things had a long-run tendency to exchange at certain "normal values." The secret of these "normal values" was to be found in what various things cost—-not simply in their money expenses of production, which in turn require explanation, but in their real cost to society. The ratios in which things exchanged had nothing to do with what individuals designed or willed. It was not human design or dictation that determined the exchange and distribution of wealth, but the objective circumstances of their production—the amount of various things which a given amount of labour could produce.

This then was the labor theory of value—a variant that Ricardo developed out of Smith's confusion into a classical tradition. One of the most important conclusions later writers of the classical school of thought drew from this law of value was the idea of the wage-contract. According to this concept, values were created by a process of free contract in the market; and since these values were constantly guarded by the "watchdog" of competition, "there could be no question of one party to an exchange getting something for nothing, or outwitting or exploiting the other save as a temporary or exceptional

occurrence." Consequently, "Labour could have no perma-
nent grievances against capital because the master was as
necessary to the labourer as the labourer was to his mas-
ter, and each must have his purchase-price."  

It was with this view that Karl Marx, writing in the
second half of the nineteenth century, took issue. While
in no way denying the advance the system of capitalism
had made over its predecessors, Marx did feel that capi-
talism, in common with previous systems, held within its
structure a basic contradiction which would be the moti-
vating force responsible for its eventual disruption.  It was evident for Marx,

...that the capitalist class, drawing
an income by virtue of property rights,
lived off the surplus labour of wage-
workers in the same sense as the medi-
eval lord lived off the surplus labour
of his serfs or the slave-owner off his
slaves; and that this was the real crux
of the matter. The difference was that
today relationships between classes did
d not take the form, as in former times,
of obligatory services imposed by extra-
economic factors such as law or social
custom, but took an exclusively value-
form as a wage-contract made between two
freely contracting parties.  

Marx was not alone in this view of historical paral-
lel. Earlier socialist writers such as Sismondi, Thomp-
son, Jones, and Bray drew similar conclusions. Generally,
their explanations indicated that capitalist income re-
sulted from the capitalist underpaying his workers or
selling the product for more than it cost to produce.

1Dobb, op. cit., p. 187.
2Ibid.
3Ibid.
4Ibid.
This charge was, however, easily answered by orthodox classicists who attributed such exploitation of the worker or consumer to imperfections in the competitive market mechanism. The cure to the classicists was obviously more perfect competition. Consequently, if he were to avoid the unsatisfactory explanations of the socialists, Marx had to show

...how the fact that one class in society drew an income without contributing any productive activity could be consistent with the prevalence of competition and the rule of economic law. He had to explain...why it was that competition did not force down the value of the net product to the money expenses of production, consisting of "wage-advances" to labourers, or alternatively force up the reward of labour until it absorbed the whole net product. 

For a better understanding of Marx's explanation of this phenomenon, it is necessary at this point to say something brief about the general theory of social development in which his economic thinking was rooted. Marx held the view that the general shape of any particular historical epoch was determined by the existing mode of production. Included in the mode of production were the "forces of production," the items actually produced, and also the relations into which men entered with one another by reason of the various positions which they occupied in the productive process. The basic difference, then, between the social relationship characteristic of capitalist society and those typical of earlier class societies was that employment had become an act of selling labor power on the market in free exchange; whereas before, labor for

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1 Dobb, op. cit., p. 188.
a master was a matter of obligation. According to Maurice Dobb,

On the face of the market it appeared that free and equal contractual relationships had been substituted for a relationship of exploitation; that freedom and equality had been realized and that resemblance to the older class societies no longer remained. Marx...in his preoccupation with the relations of production which lay behind the market, gave substance to the contractual relationships into which men entered in the act of exchange. It was the secret of capitalism as a mode of production that he was concerned to probe; and thereby reveal the specific character of the conflicts within this mode of production which would determine its place in history, its growth and movement and the future society that was destined to supplant it. With prices and exchange values he was also concerned, as were other economists; but he held that they were only capable of final explanation in terms of the class relations which underlay them, since it was of the essence of the capitalist mode of production that in this system class relations veiled themselves in a value-form.

The nature of this "value-form" was expressed by the classical law of value thusly: commodities exchanged for one another in proportion to the amount of labor embodied in them. While accepting this basic proposition, Marx went further, stating that the value-form in which capitalist class relations veiled themselves was "labour power" --- "the working activity or physical energy of a human being for a given period of time." It should be understood that the phrase, "labour-power", as Marx used it, referred to abstract labor or labor in general. In Marx's own words,

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1Dobb, Marx As An Economist, pp. 7-8.
2Dobb, On Economic Theory and Socialism, p. 188.
The labour, however, that forms the substance of value, is homogeneous human labour, expenditure of one uniform labour-power. The total labour-power of society, which is embodied in the sum total of the values of all commodities produced by that society, counts here as one homogeneous mass of human labour-power, composed though it be of innumerable individual units. Each of these units is the same as any other, so far as it has the character of the average labour-power of society, and takes effect as such; that is, so far as it requires for producing a commodity, no more time than is needed on an average, no more than is socially necessary. The labour-time socially necessary is that required to produce an article under normal conditions of production, and with the average degree of skill and intensity prevalent at the time.  

The importance of reducing all labor to the abstraction of labor power is that by such a process we are enabled to see clearly, behind the special forms which labor may assume at any given time, "an aggregate social labor force which is capable of transference from one use to another in accordance with social need, and on the magnitude and development of which society's wealth-producing capacity in the last resort depends."  

Up to this point in the discussion, the concern has been to familiarize the reader with Marx's theory of social development, against the background of which his economic theory takes shape. Also, the explanation of the abstraction---"labour power"---was intended to facilitate the understanding in the trend of his development of the labor theory of value. Now we can turn our attention to-

ward the more technical aspects of Marx's value theory.

To begin with, Marx, like the classical economists before him, recognized that every commodity possessed both use value and exchange value. The possession of use value is, however, in no way a peculiarity of commodities. As Paul Sweezy points out, "Use value is an expression of a certain relation between the consumer and the object consumed. Objects of human consumption in every form of society likewise possess use value."\(^1\) Further, "A use-value, or useful article," Marx wrote, "has value only because human labour in the abstract has been embodied or materialized in it."\(^2\) However, since political economy was "a social science of the relations between people," Marx concluded in his *Critique of Political Economy*, "that use value as such lies outside the sphere of investigation of political economy."\(^3\) Accordingly, Marx "excluded use value...from the field of investigation of political economy on the ground that it does not directly embody a social relation."\(^4\)

That factor of a commodity which does exhibit a social relation is the commodity's value in exchange. Consequently, Marx says in the first volume of *Capital*,

> If, however, we bear in mind that the value of commodities has a purely social reality, and that they acquire this reality only in so far as they are expressions or embodiments of one identical social substance, viz., human labour, it follows as a matter of course, that value can only manifest itself in the social relation of commodity to commodity.\(^5\)

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\(^2\)Marx, *op. cit.*, p. 45.
\(^3\)Sweezy, *op. cit.*, p. 32.
\(^4\)Ibid.
In other words, it is only through analyzing the exchange relation of commodities that one can discern the value that lies behind it. The modus operandi Marx used in his analysis of the problem provided his theory of value with its originality. The first to recognize the two elements of exchange value—the quantitative relation between producers and hidden behind it, a specific, historically conditioned, relation between producers—Marx attempted "to deal with them simultaneously within a single conceptual framework." Using Franz Petry's designation, Marx analyzed both the quantitative-value problem and the qualitative-value problem.

The major task of the qualitative-value theory was to discover the implications of a commodity-producing society in terms of social relations and social consciousness. Addressing himself to that task, Marx stated:

A commodity is therefore a mysterious thing, simply because in it the social character of men's labour appears to them as an objective character stamped upon the product of that labour; because the relation of the producers to the sum total of their own labour is presented to them as a social relation, existing not between themselves, but between the products of their labour.

"This is the reason," says Marx, "why the products of labour become commodities, social things whose qualities are at the same time perceptible and imperceptible by the sen-

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1Marx, op. cit., p. 55.
2Sweezy, op. cit., p. 25.
3Ibid.
4Ibid., p. 41.
5Marx, op. cit., p. 83.
ses." While there exists a physical relation between physical things, "it is different with commodities." To explain—

There, the existence of the things qua commodities, and the value relation between the products of labour which stamps them as commodities, have absolutely no connection with their physical properties and with the material relations arising between men, that assumes, in their eyes, the fantastic form of a relation between things.

Marx called this "the Fetishism which attaches itself to the products of labour, as soon as they are produced as commodities, and which is therefore inseparable from the production of commodities." Continuing the analysis, Marx wrote:

This Fetishism of commodities has its origin...in the peculiar social character of the labour that produces them.

As a general rule, articles of utility become commodities, only because they are products of the labour of private individuals or groups of individuals who carry on their work independently of each other. The sum total of the labour of all these private individuals forms the aggregate labour of society. Since the producers do not come in contact with each other, the specific social character of each producer's labour does not show itself except in the act of exchange. In other words, the labour of the individual asserts itself as a part of the labour of society only through the relations

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1 Marx, op. cit., p. 83.
2 Ibid.
3 Ibid.
4 Ibid.
which the act of exchange establishes directly between the products and indirectly, through them, between the producers. To the latter, therefore, the relations connecting the labour of one individual with that of the rest appear, not as direct social relations between individuals at work, but as what they really are, material relations between persons and social relations between things.¹

This reification of social relations, as Paul Sweezy points out, is characterized by "impersonalization of productive relations."² Now, "the individual producer deals with his fellow men only through 'the market', where prices and amounts sold are the substantial realities and human beings merely their instruments."³ It is toward this developed market situation and the quantitative-value problem at the base of its operation that we, by way of Marx, now turn.

In dealing with the quantitative-value problem, one of the first things Marx had to consider related to the proportionality involved in commodity exchange. Specifically, how were the proportions in which commodities exchanged with each other regulated? He responded to this question in an address delivered before the General Council of the First International, in June, 1865, saying:

A commodity has a value, because it is a crystallisation of social labour. The greatness of its value, or its relative value, depends upon the greater or less amount of that social substance contained in it; that is to say, on the relative mass of labour necessary for its production. The relative values of commodities are, therefore, determined by the respective quantities or amounts of labour.

¹Marx, op. cit., pp. 83-84.
²Sweezy, op. cit., p. 36.
³Ibid.
worked up, realized, fixed in them. The correlative quantities of commodities which can be produced in the same time of labour are equal. Or the value of one commodity is to the value of another commodity as the quantity of labour fixed in the other.1

According to Marx, the conditions under which commodity exchange ratios would correspond exactly to labor-time ratios existed in a society engaged in simple commodity reproduction2—that is, a society such as Adam Smith's "original state." In short, labor power sold at its value, or what is the same thing—the labor-time necessary for the production and reproduction of the means of subsistence essential to the maintenance of the laborer.3

Once an economy developed beyond the simple commodity reproduction state, however, this situation was altered. For Marx, this alteration manifested itself in the special features of capitalism. Sweezy discussed one of those special features in the passage below, saying:

Under simple commodity production...each producer owns and works with his own means of production; under capitalism ownership of the means of production is vested in one set of individuals while the work is performed by another. Both means of production and labor power, moreover, are commodities; that is to say, both are objects of exchange and hence bearers of exchange value. It follows that not only the relations among owners but also the relations between owners and non-owners have the charac-

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2 Sweezy, op. cit., pp. 45-46.
ter of exchange relations. The former is characteristic of commodity production in general, the latter of capitalism only. We may therefore say that the buying and selling of labor power is the differentia specifica of capitalism.

While the purchasing and selling of labor power distinguished capitalist production from the simple commodity production associated with the "original state," the analysis of this phenomenon separated Marx's development of the labor theory of value from that of the classical economists. He realized that capital sprang "into life only when the owner of the means of production and subsistence met in the market with the free labourer selling his labor power." However, Marx's problem was to explain how the capitalist derived an income from selling a commodity at its value given these new conditions of production. Addressing himself to the problem, Marx stated:

We have seen that the labourer, during one portion of the labour-process, produces only the value of his labour-power, that is, the value of his means of subsistence. Now since his work forms part of a system, based on the social division of labour, he does not directly produce the actual necessaries which he himself consumes; he produces instead a particular commodity...whose value is equal to the value of those necessaries or of the money with which they can be bought. If the value of those necessaries represents on an average the expenditure of six hours' labour, the workman must on an average work for six hours to produce that value. But...during that portion of his day's labour in which he produces only an equivalent for the value of his labour-power already advanced by the

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1Sweezy, op. cit., p. 56.
capitalist; the new value created only replaces the variable capital advanced. It is owing to this fact, that the production of the new value...takes the semblance of a mere reproduction. That portion of a working day, then, during which this reproduction takes place, I call "necessary" labour-time, and the labour expended during that time I call "necessary" labour.²

Continuing, Marx pointed out, however, that

During the second period of the labour process, that in which his labour is no longer necessary labour, the workman, it is true, labours, expends labour-power; but his labour, being no longer necessary labour, he creates no value for himself. He creates surplus-value which, for the capitalist, has all the charms of a creation out of nothing. This portion of the working day, I give the name of surplus-labour. It is every bit as important, for a correct understanding of surplus-value, to conceive it as a mere congelation of surplus-labour, as it is, for a proper comprehension of value, to conceive it as a mere congelation of so many hours of labour, as nothing but materialised labour.³

Relating the foregoing to materialized labor, Marx concluded:

The value of a commodity is determined by the total quantity of labour contained in it. But part of that quantity of labour is realized in a value; for which an equivalent has been paid in the form

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¹The phrase, "variable capital," is used by Marx to mean that part of capital represented by live labor.  
³Ibid., pp. 240-241.
of wages; part of it is realized in a value for which no equivalent has been paid. Part of the labour contained in the commodity is paid labour; part is unpaid labour. By selling, therefore, the commodity at its value, that is, as the crystallisation of the total quantity of labour bestowed upon it, the capitalist must necessarily sell it at a profit. He sells not only what has cost him an equivalent, but he sells also what has cost him nothing, although it has cost the labour of his workman.

Consequently, the capitalist derives his income, in the form of profits, "by selling commodities not above, but at their real values." Therefore, implicit in the labor process under capitalist conditions of production is the exploitation of labor power by capital, that is, the capitalist's expropriation of surplus labor time in terms of unpaid labor. The degree of this exploitation is determined by the magnitude of the surplus value created. This then is the essence of Karl Marx's alternative to the classical statement of the labor theory of value and the conclusions drawn therefrom.

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1Marx, Value, Price, and Profit, p. 44.
2Ibid., p. 45.
CHAPTER VI
REPUDIATION AND REPLACEMENT

Although Karl Marx offered an alternative conclusion to the classical statement of the labor theory of value, he in no way attempted to refute it. To the contrary, as a value theorist, Marx should be considered the culmination of previous classical thinking. Expanding upon Ricardo's principle, Marx simply carried the resulting difference to its logical end. The case now to be discussed, however, is completely different. The proponents of utility analysis were concerned, not with presenting an alternative conclusion, but rather, with repudiating completely the labor theory of value and replacing it with an alternative theory. While the marginal utility theorists of the eighteen seventies and eighties advanced the theory that eventually replaced the labor theory of value in Western economists, it is to be noted that they were by no means first in their repudiation. They were merely the most successful.

One of the earlier dissenters to the labor theory of value was Samuel Bailey. Writing in the 1820's, Mr. Bailey provided a great deal of the theoretical groundwork which the modern marginal utility theorists later built upon. In his Critical Dissertation on the Nature, Measure and Courses of Value, Bailey wrote: "Value, in its ultimate sense, appears to mean the esteem in which any object is held. It denotes, strictly speaking, an effect produced in the mind."\(^1\) Further,

It is only when objects are considered together as subjects of preference or exchange, that the specific feeling of value can arise. When they are so considered, our wish to possess it, may be equal to, or greater, or less than our esteem for another; it may, for instance, be doubly as great or, in other words, we would give one of the former for two of the latter. Writing chiefly in opposition to the value theory of David Ricardo and his followers, it is evident, as Robert Rauner points out, that Bailey made some observations in the foregoing passage "which were surely worthy of the predecessors of the utility analysis in England."\(^2\)

Another instance in which Bailey's repudiation of Ricardian value theory revealed itself is found in his theory of the relation between capital and value. Again, there are marked similarities between Bailey's view and those expressed by later marginalists, specifically Menger, and to a lesser extent, Böhm-Bawerk. Here Bailey stated that "the amount of capital is thus the chief...cause of value,"\(^3\) and not the "grand principle of Mr. Ricardo's work, the doctrine that quantity of labour is the cause of value..."\(^4\)

Anticipating objections by other economists to this assertion, in terms of the value of the capital was probably determined by the value of preceding capital, which in its turn determined by preceding capital in the same manner."\(^5\)

There are, of course, other instances in which Bailey disagreed with Ricardo and his followers. However, the two mentioned should suffice in establishing the fact that

\(^1\)Bailey, op. cit., p. 2.
\(^3\)Bailey, op. cit., p. 206.
\(^4\) Ibid., p. 214.
\(^5\) Ibid., p. 224.
the utility argument, as an alternative to the classical labor theory of value, was not a novelty of the economists popularly associated with marginal utility. With this in mind, then, the discussion can proceed with a coverage of the value theory of one of those economists so associated.

Carl Menger, as the founder of the Austrian school, advanced views on the subject of value to which little of significance was added, either by his contemporaries or his students. While Bohm-Bawerk and Wieser were chiefly responsible for systematizing and consolidating marginal utility analysis in general, both professedly followed Menger in theories of value. Menger expressed the essence of the marginal utility theory of value in the third chapter of his best-known work, Principles of Economics. Discussing its nature and origin, Dr. Menger defined value as "the importance that individual goods of quantities of goods attain for us because we are conscious of being dependent on command of them for the satisfaction of our needs."

Expanding on his definition, Menger stated:

Value is thus nothing inherent in goods, no property of them, nor an independent thing existing by itself. It is a judgement economizing men make about the importance of the goods at their disposal for the maintenance of their lives and well-being. Hence value does not exist outside the con-

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1In point of fact, the utility concept of value goes back to Aristotle. It was kept alive in the Middle Ages by Buridanus, and was further developed by Gian Francesco Lottini during the sixteenth century. The concept of units of utility was first propounded in the eighteenth century by Daniel Bernaelli and Ferdinard Galiani. Emil Kauder, A History of Marginal Utility Theory, (Princeton: Princeton University Press, 1965), pp. 3-41.


sciousness of men.¹
From this, Menger deduced that the value of a good is a phenomenon which arises from its relationship to human needs—that is, from the relationship between requirements for and available quantities of that good. Consequently, only a good, the requirements for which are larger than the available quantity has value. Such a good, Menger called an "economic good."² This economic character of a good makes it the exclusive cause of the satisfaction of man's needs. It is only economic goods which require of men the process of economizing, that is, making a choice between alternatives in the light of utility maximization.

Having thus described the nature and origin of value, Dr. Menger moved into a discussion of the measure of value. Here, he concluded that "the differences we observe in the magnitude of value of different goods in actual life can only be founded on differences in the magnitude of importance of the satisfactions that depend on our command of these goods."³ In an attempt to discover the ultimate causes of these differences in value magnitudes, Menger introduces a subjective factor (the dependence of separate satisfactions on particular goods).⁴ Relating to the subjective factor, he stated:

...it is above all a fact of the most common experience that the satisfactions of greatest importance to men are usually those on which the maintenance of life depends, and that other satisfactions are graduated in magnitude of importance according to the de-

¹Menger, op. cit., pp. 120-121.
²Ibid., p. 96.
³Menger, op. cit., p. 122.
⁴Ibid.
gree (duration and intensity) of pleasure dependent upon them. Thus if economizing men must choose between the satisfaction of a need on which merely a greater or less degree of well-being is dependent, they will usually prefer satisfactions on which a higher degree of their well-being depends.

From this, Menger concluded:

The magnitudes of the importance of our satisfactions that are imputed to goods—that is, the magnitudes of their values—are therefore unequal, and their measure lies in the degree of importance that the satisfactions dependent on the goods in question have for us.

In terms of the objective factor—that is, the dependence of separate satisfactions on particular goods—Menger felt that in actual life the relationship between available goods and human needs is generally very complicated. "Usually not a single good but a quantity of goods stands opposite not a single concrete need but a complex of such needs." Thus, the "magnitudes of importance that different satisfactions of concrete needs (the separate acts of satisfaction that can be realized by means of individual goods) have for us are unequal, and their measure lies in the degree of their importance for the maintenance of our lives and welfare." Consequently,

The value of a particular good or of a given portion of the whole quantity of a good at the disposal of an economizing individual is thus for him equal to the importance of the least important of the satisfactions assured by the whole available quantity and achieved with any

1Menger, op. cit., p. 123.
2Ibid., p. 139.
3Ibid., p. 120.
4Ibid., p. 139.
equal portion. For it is with respect to these least important satisfactions that the economizing individual concerned is dependent on the availability of the particular good or given quantity of a good.

Here, Menger expressed the essence of his concept of marginal utility. Differences in the values of goods depend upon differences in the needs which they satisfy. Also, differences in the importance of needs take place not only between different kinds of needs, but between greater or lesser satisfactions of the same kind of need. In consequence, "the first units of good are worth life itself, but successive units gradually lose significance."²

Counterposing this argument that the measure of value is entirely subjective in nature—that is, "the value an economizing individual attributes to a good is equal to the importance of the particular satisfaction that depends on his command of the good"³—with labor and cost-of-production theories of value, Menger stated:

There is no necessary and direct connection between the value of a good and whether, or in what quantities, labor and other goods of higher order (finished products) were applied to its production. Whether a diamond was found accidentally or was obtained from a diamond pit with the employment of a thousand days of labor is completely irrelevant for its value.⁴

From this, Menger drew the following conclusion:

In general, no one in practical life asks for the history of the origin of a good in estimating its value, but considers solely the services that the

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¹Menger, op. cit., p. 139.
²Hutchinson, op. cit., p. 141.
³Menger, op. cit., p. 146.
⁴Ibid.
good will render him and which he would have to forego if he did not have it at his command. Goods on which much labor has been expended often have no value, while others, on which little or no labor was expended, have a very high value. Goods on which much labor was expended and others on which little or no labor was expended are often of equal value to economizing men. The quantities of labor or of other means of production applied to its production cannot, therefore, be the determining factor in the value of a good.

To the contrary, only the "magnitude of importance of those satisfactions with respect to which we are conscious of being dependent on command of the good" can determine the value of that good.²

Summarizing—the views discussed on this and previous pages of the present chapter constitute the essence of the marginal utility theory of value. In reading the information presented, one implication should be clear. There exists confusion over the relation between value and price. When Menger speaks of the importance economizing men attribute to goods, he is, in effect, referring to the price that men are willing to pay for a commodity, and not necessarily the value of that commodity. Further illumination of this particular problem of Menger's theory, and marginal utility analysis in general, follows in the next chapter.

¹Menger, _op. cit._, pp. 146-147.
²Ibid., p. 147.
A CONCLUSION

The discussion of the repudiation and replacement of the labor theory of value in the preceding chapter completes, quantitatively, the greater portion of this essay's objective. The origin and development of labor-value theory has been reviewed, covering a span of time and place that began in ancient Greece and ended in nineteenth century Europe. The essential views of the chief advocates of this concept of value have been stated and analyzed. Now, the concern must turn toward the greater qualitative problem of drawing conclusions from what the foregoing indicates. Specifically, in the final pages of this essay some conclusion must be reached as to why the labor theory of value has been generally discarded among Western economists as a primitive and discredited solution to the problem of determining value. What follows then is an attempt to accomplish that end.

As it has already been shown, refutation of the labor theory of value was not original with the spokesmen of marginal utility analysis who were vocal during the late eighteen hundreds. There had been negative reaction to Ricardo's law governing the exchange value of commodities as early as 1803, the year in which J.B. Say's Traité d'Economie politique was published. Using utility as their springboard, other writers, during the years preceding Karl Marx's publication of Capital, also argued the validity of using the labor theory of value as the basis for economic analysis. Still, labor as the determinate of value remained in the center of the mainstream of economic theory.
It was also during these middle years of the nineteenth century that certain socialist writers—Proudhon, Sismondi, and Karl Rodbertus being the most outstanding—commenced attacks on the capitalist system, and consequently classical theory, which to a large extent served as a rationalization for the capitalist order. Using the labor theory of value as their basis, these critics of capitalism advanced a theory of exploitation which sought to explain the relationship that existed between the wealthier capitalist and the poverty-ridden worker. The impact of this theory upon classical thinking was considerably disturbing. Reacting to this idea of exploitation, the followers of the classical tradition entered into a period that Marx characterized as "vulgar economics," or what modern economic historians refer to as the "apology for capitalism." It was during this period, that Nassau Senior advanced his "abstinence theory," by which profit was justified on the grounds that it was merely a reward the capitalist received for deferring his own consumption. It was also in these years, while moral justifications for the economic phenomenon of profit were being voiced, that John Stuart Mill put the finishing touches on supply and demand analysis. While Mill avoided direct repudiation of the law of value set forth by Ricardo, he observed that labor as the sole determinant of value was no longer a tenable proposition. Conditions of production had changed since Ricardo's time; consequently, any relevant explanation of distribution had to reflect this change. For Mill and the rest of the classicists, the theoretical reflection of this change was to be found in an added concept—the concept of utility.

The shift in classical theory to supply and demand analysis, which reached its culmination with Mill, placed the labor theory of value on very uncertain footing.
Having lost its universality, the labor theory was still, however, an integral part of Western economic theory. It is at this point in its development that the labor theory of value was taken by Karl Marx and nurtured from the bud, as it had been harvested by Ricardo, into full bloom.

As was shown in Chapter V, using the amount of labor embodied in production and reproduction as the determinant of value, Marx explained profit not in terms of distribution, as the socialist writers had already done, but in terms of production itself. It was not by selling a commodity at a price above the cost of the embodied labor that a capitalist derived his unearned income. Instead, it was by paying for only a portion of the embodied labor but selling at the cost of the total that the capitalist derived a profit. From this Marx developed his theory of exploitation.

It was one thing to say that the capitalist was making a profit at the expense of the worker in the process of distribution. To oppose this assertion, one could merely call for more competition, which would force prices down to the level of costs. This line of reasoning was followed by the classicists in their answer to the socialist writers' charge of exploitation. However, Marx's assertion that exploitation and the surplus arising from it in the form of profit, originated in the process of production, went much further and required a great deal more in terms of an adequate retort. Using the labor theory of value as its staff, Marxian analysis, in effect, stood in challenge of the rationale of the capitalist mode of production, and therefore capitalism itself. The theory which had been the chief tool used by Smith and Ricardo in analyzing economic activity and establishing the "science of economics," had become, in Marx's hands, a weapon that threatened both the model from which Smith and Ricardo de-
veloped their analyses, and simultaneously the diversion of the "new science" onto a dismal path.

Marx's analysis, of which his theory of exploitation was an outgrowth, elucidated in meticulous detail the nature and causes of the economic paradox of value and price. This final statement of the labor theory of value left Western economic theory with but few alternatives. First, Marx's conclusion could be accepted and the capitalist mode of production severely criticized, if not on the basis of morality, on the basis of its misallocation of resources and maldistribution of income. Second, the labor theory of value could be dismissed as a primitive solution to the value problem and another theory put in its place that could explain value within the framework of existing conditions of production without leading to a theory of exploitation. Third, Marx's analysis could be ignored as merely an attempt to formulate an economic phenomenon in such a manner that it would fit into an overall political scheme culminating in revolution.

In 1871, six years after the publication of the first volume of Capital, Carl Menger's Economic Principles and William Stanley Jevons' Theory of Political Economy were published in German and English respectively. Three years later, Éléments d'Économie politique pure, written by Leon Walras, was published in French. While each work reflected the differing methods and influences peculiar to each author, all three were unanimous in their rejection of the labor theory and in their propounding of a marginal utility theory of value. According to this alternative theory, value was determined by the importance "economizing" men attributed to goods. As the discussion in Chapter VI indicated, measurement of the resulting psychic intensities necessitated the expression of value in terms of the prices men were willing to pay. While this view of value succeeded in
the removal of the idea of exploitation from consideration, it also exemplified circular reasoning in that it presupposed that individuals knew the prices they would have to pay for goods—prices which were in theory the indications of the valuations of these same individuals.

By dismissing the historical development of value as largely insignificant, the marginal utility theorists were able to avoid any consideration of labor, even as the original cause and determinant of value. Their constant references to "actual experience" and "ordinary life" as proof of the marginal utility theory's validity represented their acceptance of the capitalist mode of production as a datum whose theoretical basis was not to be questioned outside of its own framework.

Of the three alternatives left to economic theorists after Marx's finalization of the labor theory of value, it was, in my opinion, the second alternative that was chosen by the vast majority of Western economists. The acceptance of Marx's general criticism of capitalism and his conclusion of exploitation would have constituted a frontal attack on the theoretical foundation of the capitalist order for which classical theory had long served as a rationalization. On the other hand, simply ignoring Marx's analysis would have been nonsense. If for no other reason, a man who compiled enough information to fill the three volumes of Capital could not easily be disregarded as an intellectual charlatan whose interest in economic theory extended only to the point where it could be used as a tool for political antagonism. Also, simply ignoring Marx's analysis would not lessen the necessity for presenting a value theory which would, in effect, rationalize the capitalist's position in the situation that the analysis had described. The importance of this particular consideration was reinforced by the rumblings of discontent of the workers,
voiced chiefly through the spokesmen of socialist movements.

It follows then that in the last analysis, the labor theory of value was discarded generally by Western economists because in its final form it provided the basis for a solution to the problem of value which challenged on both economic and moral grounds, the rationale of capitalist society.
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