On Smith's ambiguities on value and wealth

Meacci, Ferdinando

University of Padova

October 2010

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(forthcoming in "History of Political Economy")
by

Ferdinando Meacci
Dipartimento di Scienze Economiche
Università di Padova
Tel. +39 049 8274270 Fax +39 049 8274221
Email: ferdinando.meacci@unipd.it

Introduction

The relation between the concept and theory of *value*, on the one hand, and the concept and theory of *wealth*, on the other, lies at the roots of the classical theory but has been scarcely investigated in the revival of that theory launched by Sraffa's pioneering work. Most of the literature created by the controversies resulting from this revival has been mostly focused on Ricardo's theory of value and *distribution* (in the diverging directions of improving or undermining the Ricardian vis-à-vis the neoclassical foundations of this relation) rather than on Smith's theory of value and *reproduction* (a subject that was eventually shrunk under the different, yet still diverging directions, of keynesian, neoclassical and endogenous models of economic growth).

The relative neglect of the relation between the concept and theory of value and the concept and theory of wealth is already evident in Schumper's treatment of these two branches of classical theory[1]. But most of the scholars who have later participated in the classical revival have shared the same approach by neglecting, if not just that relation, at least the crucial role it plays in the overall structure of classical theory and, more particularly, in Smith's system of thought as distinct from Ricardo's. Thus Robertson and Taylor (1957), Blaug (1959; 1997, Chapter 4, &14), Myint (1962, Chapter II), Meek (1973, p.88), Dobb (1975), Bladen (1975), Hollander (1973, Chapter IV; 1977; 1979, Chapter 5 and pp.632-7; 1997, Chapter 4 and pp.221-2, 263-8, 292-3, 347-8, 614; 2005, Chapter 4), Kaushil (1973), O' Donnell (1990, Chapter 7), Peach (1993, Chapter 6; 2008; 2009), Gehrke and Kurz (2001), O' Brien (2004, Chapter 4), to name just a few, have touched upon the relation between value and wealth sometimes without taking into consideration Smith's system of thought and sometimes by focusing on a variety of different topics ranging from the elementary issue of "value-in-use" vs. "value-in-exchange" to the more advanced issue of the "cause" (labour embodied) vs. the "measure" (labour command) of value in exchange, including

[1] See, for instance, Sections 2 and 5 of Chapter 6, Part III, of Schumpeter's celebrated work (1954) and note that the latter section, though more properly devoted to capital rather than to wealth, is structured as if capital and wealth were unrelated to the theory of value discussed in the former section.

the "index number" interpretation of this measure. The same applies to the authors of the first revival of Ricardian economics in the 20th century, such as J. B. Hollander (1904), Macdonald (1912), Cannan (1924 [1967], Chapter I) and Cassels (1935), who failed in turn to debate the validity, and to single out all the implications, of Ricardo's vis-à-vis Smith's treatments of this issue.

Yet, leaving aside the fundamental question of the causes and measure of value, there is scarcely a subject that can better highlight some crucial differences between the two main authors of classical theory. Indeed, it was not by chance that the economists who came soon after Smith, and whose aim was to single out the shortcomings of his own system, eventually focused on what they believed to be Smith's ambiguities and confusions on the issue of value and wealth. Eminent among these early critics was David Ricardo.

Whatever the focus placed on this issue by different authors in different periods and whatever the results of their focus, Ricardo's criticisms against Smith's ambiguities on value and wealth stand out over any other owing to the superior framework in which his arguments are placed. The purpose of this paper is to go into these criticisms in an attempt to evaluate whether Smith's ambiguities are just a by-product of his vacillating terminology or whether they are also, as Ricardo aims to prove, a fatal blow to Smith's otherwise profound and ever-lasting analysis. The paper is accordingly divided in two Parts.

Part I is intended as an introduction to Part II. It starts by presenting the *status quaestionis*, i.e. Ricardo's criticisms of Smith's mistreatment of value and wealth with regard to the two different subjects of "rent" and the "annual produce of the land and labour of a country". It then continues by examining, sometimes in agreement and sometimes in disagreement with Ricardo, Lauderdale's and Say's previous criticisms of Smith on the issue of value and wealth; and, secondly and most extensively, by questioning Ricardo's more advanced criticisms of Smith on this very issue. This Part concludes with the acknowledgment that Ricardo's criticisms are weakened by his failure to take into consideration some insights to be found amid or between the lines of the great work of his predecessor.

These insights are highlighted in Part II through the development and application of two distinctions. One is drawn from an isolated passage of Chapter VII, Book I, of the *Wealth of Nations* and runs between the concepts of "work done" and "work to be done". The other, a point of methodological relevance for classical theory as a whole, runs between the point of view of an *individual* and the point of view of *society*. After being hinted at in Part I, the latter distinction is brought to the fore in Part II and is eventually combined with the former in an attempt to resolve Smith's overall ambiguities on value and wealth. This attempt is brought to conclusion at the very

end of this Part when Smith's principle of value as command of labour is revisited in the light of the connection between the variations of the "annual produce of the land and labour of a country" (i.e. of riches or national wealth) and the associated variations of the e-value of labour (real wages). It will here be argued that the increase in the annual produce (revenue) and in the aggregate demand for labour resulting from a continuous process of accumulation (under conditions of competition) is the "intrinsic" cause (Malthus, 1836 [1986], Chapter II, Sections I-II) of an unintended but continuous increase in the real wages of labour (in the sense of work to be done); or, which is the same, in the amount of "necessaries, conveniences and amusements of human life" that one unit of labour can eventually command, or be exchanged for, from period to period.

A brief summary of the criticisms, countercriticisms and arguments developed while counteracting Ricardo's own criticisms (Part I) or strengthening those parts of Smith's system that these criticisms were intended to weaken (Part II) is eventually provided in the final section of the paper.

PART I. ON RICARDO AND OTHER CRITICS OF SMITH'S AMBIGUITIES

I.1. *The status quaestionis*

Ricardo's criticisms of Smith's ambiguities on value and wealth (riches) are first provided in Chapter XX, *Value and Riches, their Distinctive Properties*, of his *Principles* (1821). This chapter is a follow up to what Lauderdale (1804 [1962], Chapter II) and Say (1814-1819 [1996]) had published against Smith on the same issue and was in turn a source of further disagreement with Malthus (1836 [1986], Chapter VI; 1827 [1986], Chapter V). It was also a source of a few diverging comments by some subsequent authors such as Bailey (1825 [1967], Chapter IX, p.163), who regarded Ricardo's chapter as "a remarkable tissue of errors and unmeaning conclusions", and by De Quincey (1844 [1970], Chapter I, p.104), who instead regarded the distinction discussed in that chapter as "a mere necessity of the understanding" which "returns upon the severe thinker after all verbal efforts to evade it".

The distinction between value and wealth is utilized by Ricardo against Smith in at least two circumstances. In one (*Principles,* Chapter XX), it supports Ricardo's criticism of Smith's tendency to regard the "annual produce of the land and labor of a country" sometimes as a flow of *use* values (u-values from now onwards) and sometimes as a flow of *exchangeable* values (e-values) or even as the exchangeable value of this flow[2]. In the other (*Principles,* Chapters XXIV

2 To stress the idea that the e-value between two commodities varies in opposite directions depending on which of them is taken as the standard of measurement (an aspect of e-value that will be brought to the fore in the last section of this

and XXXII), it supports Ricardo's criticism of Smith's tendency to regard rent sometimes as the "price paid for the use of land" and sometimes as a "new creation of wealth". In both circumstances, Ricardo shows that Say and Lauderdale, while dealing with these issues sometimes in agreement and sometimes in disagreement with Adam Smith, end up by committing either some inaccuracies of their own or some mistakes even greater than those they ascribe to Smith himself.

Concerning rent. Ricardo's criticisms of Smith's treatment of rent are first announced in his initial chapter on rent where he states that "whenever I speak of the rent of land, I wish to be understood as speaking of that *compensation*, which is paid to the owner of land for the use of its original and indestructible powers"; and, moving explicitly against Smith, that rent "is a *symptom*, but it is never a *cause* of wealth" (*Principles*, Chapter II, pp.68-9 and p.75-7; italics added). These very criticisms are later extended to Malthus in so far as this author shares with Smith the mistake of considering rent as "a clear gain and a new creation of riches" instead of as a mere "transfer of value" (*Principles*, Chapter XXXII, pp. 398-400). That this mistake is a consequence of the common confusion between value and wealth is proved by Ricardo's criticism of Malthus' statement that "it has been justly observed by Adam Smith, that no equal quantity of productive labour employed in manufactures can ever occasion so great a reproduction as in agriculture"; namely by Ricardo's argument that "if Adam Smith speaks of *value*, he is correct; but if he speaks of *riches*, which is the important point, he is mistaken; for he has himself defined riches to consist of the necessaries, conveniences, and enjoyments of human life. One set of necessaries and conveniences admits of no comparison with another set; value in use cannot be measured by any known standard; it is differently estimated by different persons" (*Principles*, Chapter XXXII, p. 429; italics added)[3].

Concerning the annual produce. Smith's famous statement that "every man ("a man" in Ricardo's quotation] is rich or poor according to the degree in which he can afford to *enjoy* the necessaries, conveniences and amusements of human life" (italics added) is shared by Ricardo who contrasts it, however, with Smith's *subsequent* statement by which, once the division of labour has taken place, every man "must be rich or poor according to the quantity of that labour which he can command, or which he can afford to *purchase*" (*Wealth*, I.v.1) (italics added). Ricardo's criticism of these sentences is focused on Smith's alleged confusion between that initial "can afford to

paper), the expresion "exchangeable value" will be preferred here to the more common "exchange value" and "value in exchange". As for the terminological shortcuts of "u-value" and "e-value", they are here adopted in order to avoid, whenever possible, the terminological ambiguities which are partly responsible for the controversies examined in this paper. For a different interpretation of the term "exchangeable", see Bailey (1825 [1967], pp.239-240)

[3] From what will be argued with regard to the e-value of the annual produce (see below II.2), it results that the term "value" is here used by Ricardo in his own way, i.e. as the amount of labour embodied (in products cultivated on intra-marginal lands) rather than in Smith's sense of the amount of work to be done that the produce of a given amount of work done (on intra-marginal lands) is able to repurchase at the beginning of the new period.

enjoy" and the following "can afford to *purchase*", as if the *enjoyment* of u-values implied in the first sentence were the same thing as the *appropriation* of e-values implied in the second. The fact that they are, on the contrary, two different things is proved by Ricardo on the basis both of the principle of e-value as labour embodied (the only principle admitted by Ricardo) and of the principle of e-value as command of labour (the other principle which is added by Smith to the first when e-value is considered in a "civilized society"). The first principle is used by Ricardo in his example of an invention which makes the difficulty of production of commodities to fall. Here his conclusion is that the amount of the "general mass of commodities" produced by an unchanging amount of labour will increase while "society will have a less amount of value" owing to the combined result of the constant e-value of the greater amount newly produced and the reduced e-value of the commodities "still unconsumed" produced before (*Principles*, Chapter XX, p.274). As for the second principle, this is used by Ricardo to prove that, even if this were adopted in Smith's footsteps, value and riches would nonetheless reappear as two different concepts. For, as Ricardo argues in an evident attempt to prove Smith's inner contradictions, "a man is rich or poor, according to the abundance of necessaries and luxuries which he can command; and whether the exchangeable value of these for money, for corn, or for labour, be high or low, they will equally contribute to the enjoyment of their possessor". Hence Ricardo's conclusion is that "riches, then, cannot be estimated by the quantity of labour which they can purchase" even if their e-value were intended in Smith's latter sense (*Ibid*., pp.275-8)[4].

I.2.1. *On Ricardo and Say*

Ricardo's criticism of Say's treatment of value and wealth is based on the idea that this author "constantly overlooks" Smith's essential difference between u-value and e-value and, even more erroneously, departs from Adam Smith's theory of e-value which, in Ricardo's words, attributes to the "labour of man *alone* the power of producing value" (*Principles*, p.285, italics added). Ricardo's defense of Smith in this circumstance is more than compensated by Ricardo's implicit idea that Smith himself departs from that theory and overlooks that difference though he does it only *intermittently* throughout his work. It is as if Ricardo said: in spite of Smith's very useful

4 It can here be noted that Ricardo's treatment of the "two ways" in which the wealth of a country can increase (*Principles*, pp. 278-9), however structured on the principle of e-value as labour embodied, implicitly refers to Smith's happy intuition that an increase in the "annual produce" is the result of an increase either in the number of productive laborers or in the productivity of this same number. It is interesting to add, however, that here Ricardo's argument is not extended to Smith's related argument (which is as important for the conclusions of Smith's "magnificent dynamics" as it is among the assumptions of contemporary models of endogenous growth) that technical progress is "almost always" the consequence of the accumulation of capital (*Wealth*, II.iii.32); but is simply designed to prove (in consistency with Ricardo's own theory of e-value and against Smith's alleged confusion between value and wealth) that the first case allows for an increase both of the wealth of a country and of its (absolute) value whereas the second case allows for an increase of this wealth though not of its (absolute) value.

distinction between u-value and e-value, Say disregards this distinction right *at the beginning* of his arguments on value (when he wrongly regards the exchangeable value of commodities as determined by the action not only of labour but also of natural agents) while Adam Smith neglects or contradicts both this distinction and that theory *in the course* of his subsequent arguments on value and wealth.

Ricardo's defense of Smith from Say's objections is structured along two lines. One consists in sharing that part of Smith's theory that coincides with his own, i.e. with the principle of e-value as labour embodied. The other consists in sharing that part of Smith's theory that is focused on the wealth of society as the "necessaries, conveniences and amusements of human life" available in a country in a period. Ricardo, however, frames his anti-Say "corn mill" example in terms of the impact of a labour-saving invention on the wealth of society[5]. This is indeed the same notion that Smith would use to defend himself both from Say's objections and from Ricardo's criticisms of his statement on value and wealth above. While, concerning Say's objections, Smith would here agree that such an invention makes "men richer, by adding to value in use" (as Ricardo himself writes on p.287); concerning Ricardo's criticisms, Smith would object that what makes -as Ricardo writes (italics added)- "*men* richer" need not coincide with what makes -as Ricardo also writes in his initial criticisms of Smith's ambiguity on value and wealth- "a *man* richer". For he would object what will be developed at greater length below, namely that one thing is the wealth of *society* (as implied in the plural "men" of the former sentence) and that another thing is the wealth of an *individual* (as implied in the singular "a man" of the latter sentence)[6].

5 "If ten men turned a corn mill, and it be discovered that by the assistance of wind, or of water, the labour of these ten men may be spared, the flour which is the produce partly of the work performed by the mill, would immediately fall in value, in proportion to the quantity of labour saved; and the society would be richer by the commodities which the labour of the ten men could produce, the funds destined for their maintenance being in no degree impaired" (*Principles*, p.286: italics added).

6 A misunderstanding on this methodological issue seems to be at the roots not only of the Say-Ricardo "comedy of errors", as Hollander (2005, p.144) calls their debate on value and wealth, but also of Ricardo's own language in that his argument that "riches do not depend on value" is structured regardless of whether he is speaking of "a man" or of "a country" as well as of whether his exclusive principle of labour embodied is regarded as the cause of the "relative" or of the "absolute" value of commodities. For an early resolution of that misunderstanding, see De Quincey and his view of u-value as the "original element" -which does not include- and of e-value as the "accessory element" -which does include the idea of *property* (1844 [1970], Chapter I). It should however be noted that De Quincey defends his concept of wealth as the "true polar antagonist" to the concept of e-value, firstly, by arguing that "the original element" (value in use) may be viewed either as "totally disengaged" from "the secondary element" (value in exchange) or as "not disengaged from that element, but as necessarily combining with it"; and, secondly, by asking: "What name does it take in the first state, where it is wholly disengaged from the power of purchasing? *Answer* [and let the reader weigh this well] – it takes the name of '*wealth*'" (*Ibid*., p.8). To this brilliant specification it can only be objected that what the reader should also weigh well is that De Quincey here chooses to give the name of wealth *only* to the wealth of society (national wealth) as if it were inappropriate to use this term (as Smith does, though not in the same argument) *also* for the wealth of an individual.

I.2.2. *On Ricardo and Lauderdale*

Ricardo's criticism of Lauderdale's treatment of value and wealth (which is carried out by this author under the different terms of "individual riches" and "public wealth") is focused on the water example by which Lauderdale supports his central thesis that Smith's habit of considering the sum-total of individual riches as synonymous with public wealth "must be regarded as erroneous" (1804 [1962], Chapter II, p.48). Here Lauderdale's argument is that, should water become the exclusive possession of an individual and should its exchangeable value (i.e. the riches of this individual) consequently rise, Smith and all those who share that practice would conclude that public (national) wealth should also *increase*. The weakness of Lauderdale's argument, Ricardo argues, is that the case of water becoming *scarce* (i.e. ceasing to be a free good and becoming instead a commodity to be produced by labour) is mixed up with the different case of water becoming the object of a *monopoly*. Ricardo's conclusion is that, should the case be that of monopoly, the wealth of the country would rather remain *unchanged* (the total quantity of commodities being after the change what it was before) whereas, should the case be that of scarcity, the result would be not only "a different distribution" but also "an actual loss" of wealth (because some labour should then be diverted to the production of water from that of other commodities).

Ricardo's criticism of Lauderdale's argument is structured as an internal criticism and does not go far enough to cover two issues on which Lauderdale's misunderstanding of Adam Smith seems to be even greater. One misunderstanding comes from Lauderdale's belief, noted above, that in Smith's system of thought the sum-total of e-values coincides with the mass of national wealth; the other, a corollary of the former, comes from Lauderdale's interpretation of Smith's statement that "the general stock of any country or society is the same with that of all its inhabitants or members" (*Wealth*, II, I, 11). Lauderdale's two misunderstandings will be considered in what follows one by one.

Concerning the coincidence between the sum-total of e-values and the mass of national wealth. This coincidence is considered by Lauderdale as the core of Smith's confusion between value and wealth. It reappears in Ricardo's more advanced criticism (to which we shall return below) of Smith's tendency to speak of the "annual produce of the land and labour of a country" sometimes in terms of its *value* (e-value) and sometimes in terms of its *quantity* (u-values). For now it is enough to note that, so long as national wealth consists of all the "necessaries, conveniences and amusements of human life" supplied by the "annual labour of every nation", it cannot coincide with the sum-total either of these u-values or of their e-values if only because, in the former case, a calculation is made impossible by the eterogeneity of u-values (as Ricardo justly points out and

Smith would readily agree) and unless, in the latter case, the issue (to be raised by Ricardo in a more general context) of the relative vs. absolute value is settled. Here Smith would object that one thing is the wealth (u-values existing in particular forms and quantities) of a particular *country*; and that another thing is the *possession* of these forms and quantities by different *individuals* within this country. And, with implications to be developed below, he would continue by highlighting the link by which these two things are connected. This link, which is implied throughout the *Wealth of Nations*, runs between the role played by self-interested individuals in pursuing the maintenance or increase of the e-values they possess and the unintended outcome of their behaviour in terms of the resulting u-values of which the wealth of their nation consists.

Concerning the coincidence between the general stock of any country and that of its inhabitants. The error of identifying the sum-total of e-values with the mass of national wealth is associated by Lauderdale with the similar error (1804, p.40-1), equally ascribed to Smith, of identifying the "general stock of any country or society" with that of all its inhabitants or members. Ricardo keeps silent on this second argument. Yet this argument deserves the same criticism that Ricardo fails to raise against Lauderdale's previous argument above. For here Lauderdale seems unable to discern, within Smith's theory of *capital*, the two points of view -of an individual and of society- that he was unable to discern, as argued above, within Smith's theory of *wealth*[7]. The fact is that the "general stock of any country or society" is not only a prerequisite for increasing the "annual produce" beyond what it otherwise would be; but it is also the *outcome* of the *productive labour* employed in its past production. Now, Smith's identification of the "general stock of any country" with the stocks of all its inhabitants is not only *necessitated* by the fact that these stocks, in so far as they are products of labour, have their e-values and are therefore the property of individuals; it is also *consistent* with the theory of the increase of national (not individual) wealth as set out in the *Wealth of Nations*, Book II, from which the statement criticized by Lauderdale is drawn[8].

7 It is interesting to note that, in coherence with his view of the two ways in which the wealth of society can increase (as argued in his chapter on value and wealth and discussed in footnote 4 above), Ricardo also deals with the two ways in which the capital of society as "that part of the wealth of a country which is employed with a view to future production" can also increase (*Principles*, Chapter V). While both Ricardo and Smith regard an increase of wealth and of capital in this sense as an increase of u-values, Ricardo argues (in his own way, i.e. on the basis of the principle of e-value as labour embodied) that an increase of capital may be accompanied either by an increase of e-values (when it involves the employment of a greater amount of productive labour) or by no increase at all of these e-values (when it results from a greater productivity of a constant amount of labour).

8 Smith's identification above should be regarded as an assumption which, however restrictive, is what is needed in Book II, focused as this is on how the " revenue" of a society (as a flow of u-values) can increase rather than on how an "income" (in the form of e-values) can be realized by its individual members (a subject which rather belongs to Book I). The link between Book I and Book II of the *Wealth of Nations* can be argued starting from what Malthus points out in his own chapter on value and wealth, namely that "where *wealth* [u-values] and *value* [e-values] are perhaps the most nearly connected, is in the necessity of the latter to the production of the former"; and that "it is this value which is not

I.3.1. *On Ricardo's criticisms of Smith & Malthus on rent*

In his criticisms of Smith and Malthus on rent set out above Ricardo fails to note that the idea of rent he rejects is put forward by Smith in Book II of the *Wealth of Nations*. Now the time has come to note that this rejection, however *coherent* with the principles of value and distribution established by Ricardo in the initial chapters of his *Principles*, is nonetheless *incoherent* with the principles of capital and reproduction set out by Smith in Book II of his *Wealth*. The fact is that Smith resorts to two different concepts of rent depending on whether he is dealing with the theory of value and distribution set out in Book I or with the theory of capital and reproduction set out in Book II. Thus, while in Smith's Book I (Chapter XI) rent is "considered as the *price* paid for the use of land"[9] or, in different terms, as that fraction of the e-value of the product of land (and labour) which is *appropriated* by its individual owners (landlords), in his Book II (Chapter V) rent is "considered as the *produce* of those powers of nature, the use of which the landlord lends to the farmer" or, in different terms, as that fraction of the wealth of a country (the Physiocrats' "produit net") that exceeds the capital (of the country) advanced to labour in view of the (re)production of national wealth[10]. Yet, far from highlighting the unquestionable ambiguity by which Smith uses the *same term* for two *different concepts* in the same work (albeit in two different parts of it), Ricardo's implicit suggestion is to replace, in his interpretation of Smith and Malthus on rent, Smith's second notion of rent as net product by his own notion of rent as the price paid for the use of (intra-marginal) land (which roughly coincides with Smith's first notion). Then he structures his criticisms as if Smith always spoke of rent as a *price* (or as a *share* of the product on land, as is mostly the case in Book I) even when he uses that term to denote the *net product* on land (which is

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only the great *stimulus* to the production of all kinds of wealth, but the great *regulator* of the forms and relative quantities in which it shall exist" (*Principles*, 1836 [1986], Book I, Chap. VI, pp. 243-4; italics added). This insight is expanded in De Quincey's view of political economy as "that science which, for *nations*, professes to lay bare the grounds of their prosperity, and for *individuals*, as distributed by nature into three great orders of proprietors, the grounds of their expectations" (quoted by Hollander, 1977; italics added). This link is missed by Cannan in his excellent treatment of the "capital of a community" in classical theory (1924 [1967], Chapter IV) for he does exhibit in this treatment what he wrongly believes to be a feature of Adam Smith (and many interpreters to come), i.e. the "habit of reasoning to hastily from the individual to the community" (*ibid*., p.65).

9 This notion of rent is stressed at least twice in Chapter XI if only to show that, *if thus considered*, rent is a monopoly price which "enters into the composition of the price of commodities in a different way from wages and profit. High or low wages and profit, are the causes of high or low price; high or low rent is the effect of it" (*Wealth*, I.xi.8).

10 Rent, *if thus considered*, is said to be "greater or smaller according to the supposed extent of those powers, or in other words, according to the supposed natural or improved fertility of the land. It is the work of nature which remains after deducting or compensating everything which can be regarded as the work of man" (*Wealth*, II.v.12). Smith's unchanging term for a changing concept is made all the more dangerous by his failure to highlight not only the difference between the absolute and relative fertility of land, but also the difference between the two different theories (of capital and reproduction of national revenue or wealth, on the one hand, and of distribution of this revenue or wealth, on the other) which underlie those two concepts in two different parts of the *Wealth*.

the case in Book II). Thus when he criticizes Smith by objecting that rent does not exist when land is abundant and of equal fertility, Ricardo does not realize that what in these circumstances does not exist is rent as intended by himself, i.e. as the *price* that someone (a farmer) pays to someone else (a landowner) for the use of (intra-marginal) land; and not rent as intended by Smith in these very circumstances, i.e. as the *net product* resulting at the end of a (re)production period from the anticipations made at the beginning of it. If intended in the latter sense, rent manifests itself as the power (not of an individual or of a class of individuals vis-à-vis another but of society as a whole) to maintain and command a quantity of labor greater than that spent to obtain this power; and, therefore and more generally, as the power to employ this command outside agriculture; whence, as Malthus points out (1836 [1986], Chapter 3, Section I, p.119), the otherwise impossible origin of cities, armies, fleets, arts etc.. The fact that a price is paid by the ones to the others for the use of (intra-marginal) land is not contradicted by this concept of rent. For, apart from the two different theories in which they are used, Smith's two concepts are made compatible, beyond Smith's terminological ambiguity, by the fact that for rent to be *paid* in the first sense, a rent must be *produced* in the second. The payment of a price for the use of (intra-marginal) land (rent in one sense) follows the appearance of that power (rent in the other sense): it is in view of the appropriation of this power that a price is paid[11].

I.3.2. *On Ricardo's criticisms of Smith on the "annual produce of the land and labour of a country"*

It was argued above that Ricardo's criticisms of Smith and Malthus on value and wealth stem, with regard to Smith's statement on whether "a man is rich or poor…", from a replacement of the point of view of an individual (on which that statement is based) by the point of view of society; while, with regard to Smith's and Malthus' second notion of rent, they rather stem from the opposite replacement of the point of view of society (which is based on that notion) by the point of view of an individual (or class of individuals). We noticed above, with regard to the former case, Smith's *accurate* use of the verbs "to enjoy" and "to purchase" (and Ricardo's *inaccurate*

11 This implies that the point of view of an individual (or a class of individuals) prevails in the view of rent as a *price* as much as the point of view of society prevails in the view of rent as a net *product*. An echo of the coexistence of these two views can be found in De Quincey (1844 [1970], p.184) and Senior (1836 [1965], p.138). While De Quincey points out that rent presents itself either as an *addition* to, or a *subtraction* from, the wealth or revenue of the country depending on whether what is taken into cultivation are lands of equal or (as in Ricardo's theory) decreasing fertility, Senior speaks of rent as a *good* in one case and as an *evil* in the other. On the related issue of the interest of the landlord as "strictly and inseparably" linked (according to Smith and Malthus) with the interest of society and as "always opposed" to it (according to Ricardo), see Ricardo (*Principles*, Chapter XXIV, pp. 335-6) and Malthus (1836 [1986], Book I, Chapter 3, Sec. VIII). On Smith's ambiguities on rent, see Schumpeter (1954, pp. 184-93).

understanding of their implications) [12] as well as, with regard to the latter case, Smith's *inaccurate* use of the single term rent for two different concepts to be used in two different theories (and Ricardo's *inaccurate* understanding of the role of Smith's second notion of rent in his second theory). Now the time has come to move to the higher level where Smith's notion of the "annual produce of the land and labour of a country" eventually falls under Ricardo's critical attention. The first thing worth noticing in this connection is that two further sets of ambiguities afflict Smith's treatment of this notion. One goes unnoticed by Ricardo and concerns the term "produce" in its twofold meanings of *product* (intermediate goods + final goods) and *revenue* (final goods, i.e. wage goods + non-wage goods). The other, the most crucial target of Ricardo's criticisms, concerns Smith's treatment of the variations the "annual produce" as referring sometimes to the quantity (u-values) and sometimes to the value (e-values) of this produce.

While the former set of ambiguities can be easily overcome by intending the annual produce, in coherence with the Physiocrats' "réproduction annuelle" and in view of the further transformations of all the products of any current year into the final goods (i.e. the "revenue of the society") of the next [13], the latter set is brought to the fore by Smith himself when, presenting his theory of capital in Book II and especially in its Chapter III, he argues that "every increase or diminution of capital" tends to increase or diminish "the number of productive hands, and consequently the exchangeable *value* of the annual produce of the land and labour of the country, the real *wealth* and *revenue* of all its inhabitants" (italics added). The ambiguities of this chapter overshadow not only each of the various versions of the distinction between productive and unproductive labour, but also the connection between some of these versions. If, for instance, one compares the version known in the literature as the "value version" with the one that might be called the "produce version", one can notice that productive labour is regarded, in the first case, as that "sort of labour which adds to the *value* of the subject upon which it is bestowed" (to the extent that labour is called productive in that "it produces a *value*"); while it is dealt with, in the latter case, in connection with the increases of the annual produce, "the *whole* annual produce, if we

12 Ricardo's ultimate failure with regard to this issue consists in ignoring that the two notions of wealth associated with the two points of view collapse into the same "power of enjoying" when the exchanges between individuals are excluded by *necessity* (i.e. before the division of labour has taken place) or by *assumption* (i.e. once the point of view of society is adopted).

13 Smith's use of the terms "produce" and "revenue" as synonymous goes unnoticed by Ricardo in his Chapter XX and seems instead to be shared in his chapter XXVI where Smith is criticized on the issue of *gross* and *net* revenue. On the other hand, Smith's ambiguity on those terms is strengthened by Smith himself when, dealing in his turn with gross and net revenue, he writes that "the gross *revenue* of all the inhabitants of a great country comprehends the whole annual *produce* of their land and labour"; and, referring to "all the different inhabitants of any country", that "their real riches, the real weekly or yearly *revenue* of all of them taken together, must always be great or small in proportion to the quantity of *consumable goods*" that they can purchase (*Wealth*, II.2.5; II.2.20; italics added).

except the spontaneous productions of the earth, being the effect of productive labour" (italics added)[14].

Though Ricardo keeps rather silent on these passages, their ambiguities are more direct and far-reaching than those involved in the passages on the wealth of an individual and on rent examined above: they are more direct, because the terms value and wealth are here used by Smith as synonymous frequently in the same sentence; and they are more far-reaching, because the new passages are not about the wealth of an individual but are explicitly devoted to the "exchangeable value of the annual produce" and to its coincidence with "the real wealth and revenue of all its inhabitants". Can all these inaccuracies be considered as irrelevant as the one discussed above with regard to the wealth of an individual?

This question will be addressed in the next Part of the paper. Smith's theory of e-value will be re-utilized in this Part to show that his ambiguous terminology on value and wealth can be qualified and overcome even at the more advanced level of the "the exchangeable *value* of the annual produce of the land and labour of the country, the real *wealth* and *revenue* of all its inhabitants" (italics added). Before coming to such a conclusion, however, we must re-start from a rather neglected piece of analysis on a different issue and in a different part of the *Wealth of Nations*.

PART II. TOWARDS THE RESOLUTION OF SMITH'S AMBIGUITIES

We have argued above that Ricardo's criticisms of Smith (and Malthus) on the notions of wealth and rent are affected by an illegitimate replacement of one of the two points of view –of an individual and of society- for the other, first in one direction and then in the opposite one. On the other hand, we have also noted that Smith's ambiguities on value and wealth reach a climax in Smith's treatment of the "annual produce of the land and labour of a country" and particularly in his chapter on productive and unproductive labour, in spite of the fat that this chapter is ignored, or only implicitly anticipated, in Ricardo's chapter XX. Now the time has come to show that even this climax of ambiguities can in turn be overcome, and one of the most general conclusions of Smith's system of thought can in turn be validated, if the distinction (neglected by Ricardo) between the two points of view above is utilized within Smith's theory of e-value (as distinct from

14 The clause "if we except the spontaneous productions of the earth" is worth noting for it reveals that Smith's familiar expression "the annual produce of the land and labour of a country" rather signifies "the annual produce of *labour*, *whether employed on land or not*". Thus Smith's later allusion in the same chapter to the annual produce "as it comes either from the ground or from the hands of the productive labourers" must be intended as badly worded and may have contributed to Malthus' failure to understand that Smith's identification of the wealth of society with its "annual produce" is necessitated by the idea that this wealth is a set of u-values (whether material or immaterial) annually *produced* and *reproduced* by labour (and land, in the sense above) rather than simply a set of material objects (see Malthus, 1836 [1986], Chapter I).

Ricardo's) for explaining the variations in time of the e-value not so much of one commodity in terms of another but of all commodities "taken complexly" (i.e. of the annual produce) in terms of labour *and viceversa*. To reach this general conclusion we have first to recall that, when we are out of "that early and rude state of society which precedes both the accumulation of stock and the appropriation of land", Smith's principle of e-value as labour embodied (from now onwards: Smith's first principle) must be complemented by his different principle of e-value as command of labour (from now onwards: Smith's second principle)[15]. In what follows, we shall try to reconstruct Smith's theory by combining these simple insights with the isolated passage on "work done" and "work to be done" to be found in Chapter VII, Book I, of the *Wealth of Nations*. Before focusing on this passage, however, we must get rid of another possible contradiction between the *language* used by Smith and the *analysis* that this language implies. This possible contradiction runs between the passage above on "work done" and "work to be done" and another passage on "labour" and the "products of labour" to be found in Chapter V, Book I, of the *Wealth of Nations*. The following two sections are devoted to a re-examination of these two passages and of their joint significance for the variations of the e-value of *labour*, as distinct from the e-value of *commodities*, when the accumulation of capital is under way.

II.1. *The distinction between "work done" and "work to be done"*

Smith's statement above that "every man is rich or poor…" comes a few lines before another passage which is utterly neglected in Ricardo's criticism of that statement. The new passage provides a specification of what the wealth of an individual, intended again as the e-values possessed by this individual, amounts to:

"The power which that possession immediately and directly conveys to him, is the power of purchasing; a certain command over all the *labour*, or over all the *produce of labour* which is then in the market. His fortune is greater or less, precisely in proportion to the extent of this power; or to the quantity either of other men's labour, or, *what is the same thing*, of the produce of other men's labour, which it enables him to purchase or command" (*Wealth*, I,v,3; italics added).

The terms highlighted in italics help understand not only that Ricardo had no reason to disagree but, on the contrary, that he had every reason to agree with this passage. For the identity between "labour" and the "produce of labour" (commodities) is stated explicitly at the beginning of Chapter

15 In what follows, one should also recall that, while speaking of his second principle, Smith usually resorts to the verb "to command", as an alternative to the verb "to purchase", in the indicative or future tense (rather than in the past participle sense of the expression "labour commanded" so much used by later interpreters and commentators). The past participle and the future tense are made evident in the titles adopted by Malthus (1836 [1986]) in his reconstruction, respectively, of the first principle of e-value (see Section IV, "Of the Labour which *has been employed* on a Commodity, considered as a Measure of its Exchangeable Value") and of the second principle (see Section V, "Of the Labour which a Commodity *will command*, considered as a Measure of Value in Exchange") (italics added).

V, *On Wages*, and is implicit in many crucial arguments of his *Principles*[16]. The one who should rather justify himself for the identification of "labour" and the "products of labour" in the passage above is its very author. For this passage is inconsistent with the passage on the public mourning example provided in Chapter VII of the *Wealth of Nations*:

"A publick mourning raises the price of black cloth (with which the market is almost always under-stocked upon such occasions) and augments the profits of the merchants who possess any considerable quantity of it. It has no effect upon the wages of the weavers. The market is under-stocked with *commodities*, not with *labour*; with *work done*, not with *work to be done*. It raises the wages of journeymen taylors. The market is here under-stocked with labour. There is an effectual demand for more labour, for more work to be done than can be had. It sinks the price of coloured silks and cloths, and thereby reduces the profits of the merchants who have any considerable quantity of them upon hand. It sinks too the wages of the workmen employed in preparing such commodities, for which all demand is stopped for six months, perhaps for a twelve month. The market is here over-stocked both with commodities and with labour" (*Wealth,* Book I, Chap. VII, pp. 76-7; italics added).

Smith's example is concerned with the limited context of the "occasional and temporary fluctuations in the market price" (of commodities as distinct from labour) and fully belongs, therefore, to the "most ably" written chapter on natural and market prices[17]. The relevance of this passage, however, goes beyond the limited context (or short run, as we would call it today) in which it is placed. For it highlights that there is indeed a conceptual difference between *commodities* (products of labour) and *labour*; and that this is equivalent to the difference between *work done* and *work to be done*[18].

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16 See, however, Ricardo's occasional use of the expression "work to be done" in *Principles*, Chapter V, p. 95 and Chapter XX, p. 279.

17 The praise for this "most ably" written chapter comes from Ricardo (*Principles*, p.91). Smith, however, might not welcome this compliment. For this is one of the three chapters about which Smith calls for the reader's "patience and attention" in understanding a subject that "may, perhaps, after the fullest explication which I am capable of giving of it, appear still in some degree obscure" (*Wealth*, I, iv, 18). It can here be added that one of the reasons why Chapter 7 may "appear still in some degree obscure" to Smith (though not to Ricardo) is hidden in its title which *fails* to read: "Of the Natural and Market Price of Commodities *and Labour*".

18 The true relevance of the distinction between work done and work to be done is enhanced if one gets rid of two minor ambiguities. One is due to the English language where "labour" and "work" are the roots of two synonyms frequently used to denote the same persons (i.e. labourers and workers) while "work" indicates sometimes the pain of labour and sometimes its product (like in the phrase "work of art" or "the works of Adam Smith"). Another is due to economic analysis where the "toil and trouble" of labour is often confused with the effectiveness of this toil and trouble and where (as noted by Engels in *Das Kapital*, 2nd edn, Volume I, Chap.1, note 16) "labour" and "work" are not used to denote the two distinct sources of e-values and u-values while "labour" is used to denote, to confuse matters even more, sometimes an agent of production and sometimes a commodity for sale. On the other hand, the relevance of Smith's distinction is proved by its re-birth in Marx's notions of "objectified" or "dead labour" (*tote Arbeit*), "living labour" (*lebendige Arbeit*) and "labour power" (*Arbeitskraft*). Leaving aside Marx's analytical purposes, the similarities between these two sets of notions consist in the fact that both Marx's "labour force" and Smith's "work to be done" are bought and sold in the market for *labour* while both Marx's "dead labour" and Smith's "work done" are bought and sold in the market for the *products of labour*. Marx's distinction, however, is more precise than Smith's because it excludes the further ambiguity whereby the expression "work to be done" may be taken to mean both the labour for sale

We shall see below the extent to which these two passages contradict each other in Smith's system of thought and the extent to which they do not. Before getting to this stage, however, a pause is needed to discover the analysis that is hidden within Smith's apparent contradiction. This is what is done in the next section. Its aim is to prove, firstly, that, in spite of Smith's inaccurate wording, there is no fundamental contradiction between the two passages quoted above; and, secondly, that the resolution of this contradiction goes hand-in-hand with the two points of view – of an individual and of society- for upgrading the relevance of Smith's second principle and for reaching the general conclusion mentioned at the beginning of this Part of the paper.

II.2. *The distinction re-formulated for the long-run*

Smith's publick-mourning example can be re-utilized to highlight both the difference and the connection between two markets. One is the market for the *products of labour* (where one form of work done is exchanged for a different form). The other is the market for *labour* (where work done in the form of wage goods is exchanged for work to be done). Thus if we label labour in the sense of work to be done by Λ and the different forms of work done by $\lambda_1, \lambda_2, \lambda_3 .... \ldots \lambda_{n-2}, \lambda_{n-1}, \lambda_n$, and if wed enote wage-goods by the subscript j ($1 \leq j \geq k$) and the other products of labour by the subscript i ($k+1 \leq i \geq n$); we can single out two sets of exchanges and three different ratios. One ratio (λ_j/λ_i) is the e-value of one commodity in terms of another (i.e. how much work done in the form of wage-goods is exchanged for one unit of work done in another form); another ratio (λ_j/Λ) is the e-value of labour from the standpoint of the labourer (i.e. how much work done in the form of wage-goods is exchanged for one unit of work to be done); the third ratio ($\Lambda/\lambda_{j,}$), the reciprocal of the second, is the e-value of labour from the standpoint of the employer of the labourer (i.e. how much work to be done is exchanged for one unit of work done). These exchange ratios are, so to speak, the passports by which different forms of work done are exchanged for each other while wage goods are exchanged for work to be done. They support the exchanges between what Smith calls in the following passage "labour" (to be intended as Λ, or work to be done), "subsistence" (to be intended as λj, or work done in the forms of wage-goods) and "every other commodity" (to be intended as λi, or work done in any forms):

"The subsistence of the labourer, or the real price of labour, is very different upon different occasions; more liberal in a society advancing to opulence, than in one that is standing still; and in one that is standing still, than in one that is going backwards. Every other commodity, however, will at any particular time purchase a greater or smaller quantity of labour in proportion to the

in the labour market (Marx's "labour power") and the work underway in the production process (Marx's "living labour").

quantity of subsistence which it can purchase at that time" (*Wealth*, Book I, Chap. V, p. 53).

While the exchange ratio Λ/λ_j is considered in this passage in the light of its variations *from one period to another* ("upon different occasions"), the exchange ratio between λ_j/λ_i (and thus also between λ_i/Λ) is considered *within a given period* ("at any particular time"). If this passage is considered in the light of the previous one, it conveys the idea that the exchanges between different forms of work done (λ_j and λ_i) must be distinguished from the exchanges between wage-goods (λ_j) and labour as work to be done (Λ); as well as the idea that both the former and the latter exchanges are, respectively, *indirectly* and *directly* needed for the overall process of production and reproduction of national wealth (if only because the intermediate goods of one year are the potential wage goods of the following years). These two passages and the related exchange ratios can be used to coordinate the two principles of e-value, on the one hand, and these principles with the principle of demand and supply, on the other.

As for the two principles of e-value, the first principle (labour embodied) may be used (with the qualifications allowed for by Ricardo, *Principles*, Chapter I, Sec. IV-V) to support the determination of the exchange ratios between different forms of work done (λ_i, $k+1 \leq i \geq n$) while the second (labour command) may be used to support the determination of the exchange ratios between the products of labour and labour, i.e. between work done in the form of wage-goods (λ_j, $1 \leq j \geq k$) and work to be done Λ. Given the insights provided in this connection by Bailey (1825 [1931], Chapter V) and Malthus (1836 [1986], Chapter II), we can accordingly conclude that, while the first principle holds for the exchanges between *contemporary* commodities, the second principle holds for the exchanges between the *successive* commodities involved in the process of production and reproduction of national wealth when carried out under conditions of capital accumulation.

As for the principle of demand and supply, this principle, however missing in Smith's language, is an essential part of Smith's system of thought (as highlighted, for instance, by Malthus, 1836 [1986], Chapter II, Section II). The role played by this principle in that system is not to explain the *causes* of the e-values of commodities in terms of each other but only the *variations* of their *magnitudes*. This is of particular relevance when it comes to the e-value of labour and, particularly, to the variations of its *natural* price. In this connection, it can be observed that, although the publick-mourning example above is focused on the *direct* impact on price of an "occasional and temporary" change in demand, the distinction it brings to the fore can be utilized to highlight also the *indirect* impact of a change in the same demand. This is best understood if that principle is associated with Malthus's more specific distinctions between *intensity* and *extent* of

demand as well as between *intrinsic* and *extrinsic* causes of variation of e-values (1836 [1986], Chapter II, Sections I-II)[19]. That principle and these distinctions are of the utmost importance when it comes to the causes of variations of λ_j/Λ. For an increase of this ratio may come either from an *increase* in the *demand* for Λ and in the consequent supply of λ_j (i.e., in Malthus' terms, in the "will combined with the power" to purchase *labour*), or from a *decrease* in the *supply* of Λ and in the consequent demand for λ_j (i.e. in the "will combined with the power" to purchase *wage goods*). Smith's approach to this issue seems to be that the variation worth being investigated as a matter of analysis -and being pursued as a matter of policy- is a variation of the former kind, i.e. an increase in the real price of labour resulting from an increase in the demand for Λ (and consequent increase in the supply of λ_j). The only force that both Smith and Ricardo consider capable of supporting a permanent increase of this *demand* is the accumulation of capital, their most important divergence regarding the possibility for this increase to result in a permanent increase of that *price*.

II.3. *On the exchangeable value of the annual produce*

The aim of the previous two sections was to extend Smith's analysis of the "occasional and temporary fluctuations in the market price" and his associated distinction between work done and work to be done to an analysis of the *permanent* increases of what Smith and Malthus (not Ricardo) would regard as the *natural* price of labour. This extension was based on a discussion of the principle of demand and supply as developed by Malthus in Smith's footsteps and was supported by the notion of the e-value of commodities as the amount of labour (work to be done) that they command in an economy based on the employment and accumulation of capital. Now the time has come to take up again the distinction between the two points of view, of an individual and of society, that was used above to clarify Ricardo's misunderstandings on Smith's notions of wealth and rent. This distinction, once combined with the arguments developed in the previous two sections, will help to dissolve i) Smith's contradiction between his initial identification of labour with the products of labour and his later distinction between work done and work to be done; as well as ii) Smith's ambiguities as to whether the "annual produce of the land and labour of a

19 According to these distinctions, the direct impact of a change in demand on the price of black cloth and of journeymen taylors contemplated in the public-mourning example reflects an increase in the "intensity" of demand and corresponds to an "intrinsic" cause of variation of that price; while the indirect impact depends on the further reactions triggered by this variation in the long-run supply of black cloth and of journeymen taylors. On the other hand, two examples of what Malthus would call "extrinsic" causes of variation of the e-value of labour can be found in Ricardo (1823). After assuming that, given an unchanging capital of the country, the supply of labour suddenly increases (due to a great influx of people from abroad or to an unwise encouragement to marriage) or suddenly falls (due to an epidemic disorder), Ricardo's conclusion here is that the e-value of labour falls in the former case while it rises in the latter. On the intrinsic and extrinsic causes of variation of e-value, see also Senior (1836 [1965], pp.116-120).

country"is to be intended in terms of its e-value and of its quantity (u-values or national wealth). This twofold aim will be achieved by looking at our subject, first, from the point of view of an individual capitalist and, later on, from the point of view of the economy as a whole.

As for an individual capitalist. The relation above between the accumulation of capital and the e-value of commodities as the amount of labour they will command is best understood if we start from the behaviour of an individual capitalist. The "function or office" of this individual is to push forward the time-consuming process of production of national wealth along with a number of other capitalists who come before him in this process. He performs this "function or office" by purchasing work done from these capitalists as well as work to be done from labourers and by turning these two forms of work into a more advanced form of work done. His fundamental purpose is to exchange the work done resulting from these operations for an amount of labour greater than the amount employed in them. Is this labour to be considered in the forms of work done or of work to be done? This question may be used to introduce one similarity and two differences between an individual capitalist and an individual as such: while the similarity consists in both individuals being indifferent about the object of their command or purchase (be it –to use Smith's terms above- labour or the products of labour, work done or work to be done), the two differences consist in the fact that the aim of an individual capitalist is i) to (re)purchase some work to be done by selling the work done in his possession, and ii) to (re)purchase it with a *profit*. Hence the verbs "can" and "will" implicitly or explicitly adopted by Smith and Malthus in the expression "to command or exchange for" used to convey Smith's second principle: while the verb "can" most appropriately conveys the idea of an exchange between *contemporary* commodities owned by different individuals (whether capitalists or not), the verb "will" conveys the idea of the *future* profit expected by an individual capitalist when engaging himself in the trade of *successive* commodities, i.e. in purchasing today work done (from other capitalists) and work to be done (from labourers) for selling tomorrow the work done resulting from his time-consuming operations.

As for the economy as a whole. If now we move from the point of view of an individual to the point of view of society, the scene changes completely. For the view of a number of different capitalists engaging themselves across different stages of the transformation of raw materials into final goods is here replaced by a view of the production of final goods as a vertically integrated process in which the exchanges between successive capitalists disappear behind the overall exchange between wage goods (owned and sold by capitalists) and labour (work to be done owned and sold by labourers). This view enables us to posit all the work done in the form of wage goods on one side and all the work to be done on the other; and to regard these two sides as, respectively,

the aggregate demand for, and aggregate supply of, *labour* in the economy as a whole. The interaction between these two forces is the engine that propels at any moment the production and reproduction of national wealth. Needless to say, it is this interaction that also determines the real price of labour as the amount of wage goods given in exchange for one unit of labour as work to be done. This price is what the individual capitalist considered above takes as given when he decides to enter the market for work to be done in any particular stage of the time-consuming process.

Now, if we want to know what may determine a *permanent* rise in this price (intended again in the sense above and not in the different sense suggested by Ricardo on the basis of the labour embodied in the wage goods given in exchange for labout), we must focus on the demand for labour in the light of Malthus's distinctions, mentioned above, between the intensity and extent of demand as well as between the intrinsic and extrinsic causes of variation of e-value. We shall find then that a permanent rise of the e-value (real price) of labour is to result not from a *decrease* in the supply of Λ while the demand for it (and supply of λ_j) is constant; but from an *increase* in the demand for Λ (and supply of λ_j) while the supply of Λ is constant (or rises by less). We have already seen that the only force that makes this possible is a continuous process of accumulation. Now we can add that while the aim of each individual capitalist is to increase the e-value at his command (i.e. his individual wealth) in terms of the amount of labour either as work done or as work to be done that his products *will* command at the end of his operations, the joint outcome of the behaviour of a multitude of capitalists taken together is, in any particular year, either that a greater produce (national wealth or revenue) *can* then command a greater amount of labour (work to be done) at a given wage rate; or that a given amount of labour (in the same sense) *can* then command a greater share of that produce at a higher wage rate[20].

This shows the nature and, to some extent, the analytical irrelevance of Smith's ambiguities as to the "annual produce of the land and labour of a country". For the e-value of particular commodities (from the standpoint of their individual owners) must be distinguished from the e-

20 The change of scenario that takes place when one moves from the point of view of an individual capitalist to the point of view of society has been scarcely noticed by Ricardo's early critics. Take, for instance, Bailey and Malthus. After replacing Ricardo's conclusion that "riches, then, cannot be estimated by the quantity of labour which they can purchase" by his opposite conclusion that "no increase of riches can take place without an increase of value", Bailey argues, in Smith's footsteps, that "the value of labour must signify the power of commanding other things in exchange" (1825, p.169 and p.46). Bailey, however, proves unable to proceed along these footsteps by distinguishing the exchanges between different products of labour (commodities belonging to different individuals) from the exchanges between the "annual produce of the land and labour of a country" and labour as work to be done in the whole country. Something akin to this flaw was noticed by Read (in a passage commented by Hollander, 1977, p.239) and was shared by Malthus. For Malthus distinguishes between "the power of commanding labour" and "the power of commanding the necessaries, conveniences and luxuries of life" as two different things in the sense that "one, in fact, is a description of *value*, and the other of *wealth*" (1827 [1986], p.17; italics added; see also 1836 [1986], Chapter VI). But it can be objected that, if the point of view is that of society, the power alluded to is -in the first case- the power of the products of labour (work done) to command all the available labour (work to be done) whereas it is -in the second case- the power of all the available labour to command the products of labour.

value of commodities "taken complexly" (i.e. from the standpoint of society). In this different context, an increase in the "annual produce" resulting from the employment and accumulation of capital (the typical subject of Book II of the *Wealth of Nations*) must be understood to mean an increase both of the quantity and of the e-value of this produce: of its quantity, because the u-values resulting from that employment and accumulation will be available in greater quantities (or better forms) than it was possible in previous years; of its e-value, because these greater quantities (or better forms) will eventually command, or exchange for, a greater quantity of labour (work to be done) than the quantity commanded at the wage rate prevailing in those years[21]. What is most relevant is that the increase that does really matter to all "friends of humanity" (Ricardo, *Principles*, p.100) is not an increase in the annual produce as such (whether absolute or per head), or in labour productivity as such, or even in the aggregate demand for labour as such. Rather, it is the unintended consequence of an increase of this demand relative to supply, i.e. a rise in the ratio λ_j/Λ or, in still different terms, the greater quantity (or better forms) of the "necessaries, conveniences and amusements of human life" that the owners of a given amount of work to be done *can* then command, or exchange for, in any particular year[22].

Concluding remarks

[21] This implies a further and crucial difference between Smith and Ricardo. For Smith considers the e-value both of a particular commodity and of the annual produce as a whole not only in a *different* sense from Ricardo but also, and consequently, in a *twofold* direction. While the e-value both of a commodity and of the annual produce is always understood by Ricardo in the light of the principle of labour embodied (with the risk of confusing, and the necessity of distinguishing, "relative" and "absolute" values), Smith resorts sometimes to his first and sometimes to his second principle of e-value when dealing with the e-value of particular commodities in terms either of each other or of labour. When dealing, however, with the e-value of the annual produce in Book II, he exclusively resorts to his second principle sometimes (when the point of view is that of an individual) in the sense of the work to be done that the owners of the annual produce *will* individually command; and sometimes (when the point of view is that of society) in the sense of the annual produce that the owners of work to be done *can* then command collectively.

22 This is the general conclusion alluded to at the beginning of this Part. To contrast it with Ricardo's equally general but very different conclusion, it can be called *Smith's law of increasing wages* (Meacci, 2006). As anticipated at the end of the previous section, this law requires that the supply of labour (population) be permanently overstripped by the demand for it. Unfortunately, Smith's ambiguities on this issue are even greater, and much less noticed in the literature, than those on value and wealth from which we started. For, in contrast with the strong sentences on population growth pointing in an opposite direction (*Wealth*, I.vii), Smith's system of thought requires that the "production" of men, though liable to increase with the "demand" for them, must *not* increase *by as much*. It should be noted, however, that this "not by as much" is necessitated by Smith's view of the *natural* price of labour as increasing with a continuous process of accumulation and is consistent with the general principle of the "uniform, constant, and uninterrupted effort of every man to better his condition" (*Wealth*, II.iii.31). This principle may indeed be taken to affect not only the saving but also the reproductive habits of the people, especially if the rise of national wealth makes all of them to become "people of fashion" (*Wealth*, I.viii.37). For a similar interpretation, see Robertson (1976). For an attempt to prove that Smith's model captures the "laws of motion of western economies in the last two centuries" (and, we might add today, of China and some "non-western" economies in more recent decades) if only its demographic hypothesis were "modified", see Samuelson (1977). This (rather than the intermediate attack on the "mean and malignant expedients of the mercantile system": *Wealth*, IV.vii.142) seems to be the end result of that "systematical arrangement of different observations connected by a few common principles" (*Wealth*, V.i.153) that is celebrated by Hueckel (2000) as Smith's highest achievement.

Ricardo's distinction between value and wealth has been shared above by adopting the expressions e-value and u-value to reflect the two different concepts embodied in the term value, and by admitting that the neglect of this difference, however highlighted by Smith, has been responsible for a number of ambiguities and contradictions in the works of some classical economists as well as of Adam Smith in the first place. While Ricardo's criticisms of Say's and Lauderdale's treatment of that distinction have been shared in Part I along with his related defence of Smith, Ricardo's different and more far-reaching criticisms on the specific subjects of rent and the "annual produce of the land and labour of a country" have been examined with greater care in the second half of Part I. This examination has been extended and deepened in Part II by means of two major distinctions. One runs between the point of view of an individual and the point of view of society; the other between labour as work done and labour as work to be done. However implicit the former distinction may be in the whole structure of the *Wealth of Nations* and in spite of the latter distinction being confined to a neglected passage of Book I, both distinctions have been used in Part II to prove that Smith's ambiguities on value and wealth reflect a terminological, rather than logical, muddle and can be resolved by adopting on Smith's behalf the same self-defence put forward by Ricardo in one of his letters to Trower, namely that "the fault lies not in the doctrine itself, but in my faulty manner of explaining it" (Sraffa, 1951-1973, Vol. IX, p.38).

The most dangerous of Smith's ambiguities has been identified in his referring sometimes to the "quantity" and sometimes to the "exchangeable value" of the "annual produce of the land and labour of a country" as if there were no difference between the two. This ambiguity has been eventually resolved by revisiting the principle of e-value as command of labour in the light of the variations that this e-value undergoes when it runs, first, between different commodities as products of labour (in the sense of work done) and, later on, between all the commodities "taken complexly" and the labour (in the sense of work to be done) available in the whole economy. The final conclusion of all the arguments above is that, in spite of all his ambiguities, Smith is consistent in maintaining that a *continuous* process of accumulation is the only possible cause of a *permanent* increase in the demand for labour and, consequently, in the amount of "necessaries, conveniences and amusements of human life" that a given amount of labour *can* then command, or exchange for, from one period to another.

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