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Wealth¹

by

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ABSTRACT

The notion of wealth appears and reappears in Ricardo's works within three different sets of arguments. One is concerned with the distinction between *wealth* and *value*, another with the *causes* of the progress of wealth, the third with the *consequences* of this progress on the trend of natural wages, profit and rent. Ricardo deals with these subjects sometimes in agreement and sometimes in disagreement with Smith. The agreement reaches a climax on the notion of wealth as such as well as on the causes of its progress while the disagreement ramifies into the foundations both of that distinction and of the resulting conclusions on the trend of natural wages, profits and rent. This entry will focus on the details of Ricardo's agreements and disagreements with Smith on the subject of wealth as distinct from the close subject of value. We will prove that, except for some minor differences, Ricardo's notion of wealth is the same as Smith's. As such, it is used by Ricardo as synonymous with the notion of the annual produce of the land and labour or of the necessaries, conveniences and amusements of human life available in a country in a period. This coincidence permeates Ricardo's theory of wealth in so far as this theory is focused on the *progress*, as distinct from the *distribution*, of wealth. Thus, starting from a similar theory of wealth but from a very different theory of value, Ricardo develops some of his criticisms of Adam Smith's theory on the basis of his distinction between value and riches (wealth) as well as of his exclusive notion of rent as a price paid to the owner of land for the use of its original and indestructible powers. These criticisms are consistent with Ricardo's starting point on value as labour embodied and are in contrast with Smith's different starting point on value as labour commanded.

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The notion of wealth appears and reappears in Ricardo's works within three different sets of arguments. One is concerned with the distinction between *wealth* and *value*, another with the *causes* of the progress of wealth, the third with the *consequences* of this progress on the trend of natural wages, profit and rent. Ricardo deals with these subjects sometimes in agreement and sometimes in disagreement with Smith. The agreement reaches a climax on the notion of wealth as such as well as on the causes of its progress while the disagreement ramifies into the foundations both of that distinction and of the resulting conclusions on the trend of natural wages, profits and rent.

1. Ricardo's notion of wealth

Ricardo's notion of wealth coincides with Smith's in the general sense that both of them reject the popular idea that wealth consists in money (gold or silver) along with the associated idea that one nation's gain must be another nation's loss (*WN* IV.i; *Works* III: 139-45; on the notion of wealth in classical economics, see Meacci 1998a). It also coincides with that notion, except for some details to be discussed below, in the more specific sense of regarding wealth as the annual produce of the land and labour or, more precisely, as the annual flow of the necessaries, conveniences and amusements of human life available in a country in a period. These similarities do not rule out some different meanings in that wealth is intended by both authors sometimes as a *flow* in a period of time and sometimes as a *stock* at an instant of time, and in both cases either as a flow or stock sometimes of final goods and sometimes of final + instrumental goods. Thus while Smith uses the term wealth as synonymous mostly with *revenue* (a flow) and sometimes with a *stock* of goods (though never of money), Ricardo uses the same term as synonymous sometimes with *riches*, sometimes with (the aggregate of) *use values*, and sometimes with (net and gross) *revenue*, (net and gross) *income* and (net and gross) *produce* (see, for instance, Ch. XXVI and Ch. XXXI). Now while the terms *wealth*, *riches* and *use values* are different words that may be properly used for the same concept, the terms *revenue*, *income* and *produce* convey different concepts depending on whether they are considered from the standpoint either of an *individual* or of the whole *society*. When, for instance, it comes to the latter standpoint, the term *revenue* (which -as noted by Marx, *Capital*, Vol.2, Ch.19- comes from the French verb *revenir*) rather conveys the idea of final goods that *return* to life in the current year as a result of the wage goods exchanged for, and consumed by, the labour employed in the process of their reproduction, while the terms *income* and *produce* rather convey the different concepts of goods that either *come in* or are *produced* in the current year regardless of the labour employed, respectively, in the current or in previous years.

2. Material vs. immaterial objects

However close to Smith's notion of wealth as the annual produce of the land and labour of a country and as the necessaries, conveniences and amusements of human life available in a given period, Ricardo's notion is incidentally different if one looks at his treatment of this issue in his *Notes on Malthus's Principles of Political Economy* (Works, II). For in the third of these notes he shares Malthus's attempt to fill the gap left over by Smith by drawing a line between material and immaterial objects and by confining the notion of wealth only to those material objects which are necessary, useful, or agreeable to mankind. This definition, it must be noted, excludes all the services that, though necessary, useful, or agreeable to mankind account for an increasing part of the wealth of a country as this increases from period to period. Moreover, the justification provided by Malthus/Ricardo that only material objects are capable of accumulation and definite valuation denies the existence, stressed by Smith in the first place and shared ever since, of those forms of human capital that are in their turn capable of accumulation. On the other hand, Malthus's further objection, implicitly shared by Ricardo, that Smith's notion of wealth as the annual produce of land and labour is not sufficiently discriminate, as it would include all the useless products of the earth, as well as those which are appropriated and enjoyed by man would be acceptable only if Smith had written annual produce of land *or* labour. However, this never occurs in his work except in a single passage, misquoted by Ricardo as the annual produce *either* of land *and* labour (*Principles* Ch. XXII, 308) where Smith speaks of the produce *either* of land *or* labour (*WN* IV.v.14; italics added). While Ricardo's use of the term *and* in the passage just quoted may be viewed as a misprint, Smith's replacement of the term *or* for the term *and* used throughout the *Wealth* does not seem to be a misprint if only because Smith is here speaking not of the production and reproduction of national wealth but only of the *money* price of whatever is produced in relation to a change in the *money* price of labour. Yet, in spite of his minor misinterpretation of Smith's famous expression, Ricardo was fairly equipped to enrich rather than, in Malthus's footsteps, to impoverish the notion of national wealth conveyed -and the theory of reproduction introduced- by that expression. For, given the distinction highlighted in Section III, Chapter I, of his *Principles*, Ricardo could have re-launched that notion in the more exact sense of the annual produce of land and labour, *whether direct or indirect*, rather than in the weaker sense that he seems to share while endorsing Malthus's misleading attempt to criticize Smith's notion of wealth as including all the useless products of the earth. In any case and contrary to this endorsement of Malthus's view, the direct/indirect labour qualification is required in Ricardo's system of thought at least when he comes to the exchangeable value of the annual produce as determined by the total labour embodied in it. Such a qualification is therefore consistent with a notion of wealth which includes, as it does in

Smith's system of thought, all the products which are appropriated and enjoyed by man in so far as these products, be they material or immaterial objects, are the exclusive result of the employment of *labour*.

3. National wealth vs. individual wealth

The common origin of Smith's and Ricardo's notion of wealth is made clear when, right at the beginning of his criticisms of Mercantilism, Smith objects to the popular prejudice that a rich country, in the same manner as a rich man, is supposed to be a country abounding in money (WN IV.i.2). This sentence reveals that the identification of wealth with money (gold and silver) is in turn the result of the more general confusion between the nature and progress of the wealth of an *individual* (a rich man) and the nature and progress of the wealth of a *nation* (a rich country). The former kind of wealth is best illustrated by J. S. Mill -and is best distinguished from the other- when he writes that to an individual anything is wealth which, though useless in itself, enables him to claim from others a part of their stock of things useful or pleasant (1965, 8). Ricardo's neglect for whatever may be part of the wealth of an individual without being part of the annual produce of the land and labour of a country is justified, however, by Smith's own statement, silently shared by Ricardo, that the general stock of any country or society is the same with that of all its inhabitants or members, and therefore naturally divides itself into the same three portions, each of which has a distinct function or office (WN II.i.11). This statement, which is concerned with the capital stock of a nation as part of its wealth considered at an instant of time, is an assumption which is introduced to simplify -rather than to confuse- the relation between the wealth of an individual and the wealth of society. This assumption proves that Ricardo's method of analysis is, at least in this connection, the same as Smith's in so far as both authors look at the progress and distribution of the wealth of nations as two distinct outcomes of the interactions between their different inhabitants. Hence the idea that the component parts of the annual produce of a country cannot be but the *property* of its individual members along with the idea, partly and incidentally rejected by Ricardo as argued above, that all these parts cannot be but products of their own labour. Hence the importance of keeping apart, while studying together, the concept and theory of exchangeable *value* (i.e. of what is owned by an individual in terms of what is owned by another) from the concept and theory of national *wealth* (i.e. of the flow of the use values annually produced by labour regardless of who owns what).

4. Wealth vs. value

The distinction and connection between the wealth of an individual (which consists of exchangeable values and is based on the concept of property) and the wealth of society (which consists of use values and is unconnected to that concept) comes to the fore in Ch. XX, *Value and Riches, their Distinctive Properties*, of Ricardo's *Principles* (for further details on this issue, see Meacci 1998b, 2012). Smith's statement on whether a man is rich or poor is here mentioned by Ricardo along with his arguments on whether a country is rich or poor in a manner that reminds of Smith's initial criticisms of Mercantilism although the whole chapter is intended as a critique of Smith's fundamental theory of value. Here Ricardo lays bare Smith's ambiguity whereby a man is said to be rich or poor depending on the amount of necessaries, conveniences and amusements that he can afford to enjoy as well as that he can afford to purchase (WN I.v.1, italics added) as if these were two equivalent expressions in spite of the cardinal distinction between value in use and value in exchange. Ricardo then focuses on the resulting confusions by which other authors, such as Lauderdale (1962 [1804] and Say 1821 [1803-1819]), deal with this issue in spite of their criticisms of Smith's treatment of the same topic. While Ricardo's criticism of Say is focused on the latter's alleged confusion between value in use and value in exchange, his criticism of Lauderdale is based on the equivalent confusion between the wealth of an individual and the wealth of society. After reconstructing Lauderdale's argument that, if water becomes scarce and is exclusively possessed by an individual, you will increase his riches, because water will then have value; and if wealth be the aggregate of individual riches, you will by the same means also increase wealth Ricardo rejects this argument by distinguishing not only between the case of water becoming the object of *monopoly* and the case of water becoming *scarce*, but also between the resulting increase in the wealth of an individual as distinct from the wealth of society:

You undoubtedly will increase the riches of this individual, but inasmuch as the farmer must sell a part of his corn, the shoemaker a part of his shoes, and all men give up a portion of their possessions for the sole purpose of supplying themselves with water, which they before had for nothing, they are poorer by the whole quantity of commodities which they are obliged to devote to this purpose, and the proprietor of water is benefited precisely by the amount of their loss. The same quantity of water, and the same quantity of commodities, are enjoyed by the whole society, but they are differently distributed (Principles XX, 276).

In an attempt to strengthen his strictures against Lauderdale's confusion, Ricardo proceeds by arguing that the wealth of a country may increase, unlike the wealth of an individual, only in two ways; i.e. either 1) by employing a greater portion of revenue in the maintenance of productive labour, which will not only add to the quantity, but to the value of the mass of commodities or 2) without employing any additional quantity of labour, by making the same quantity more productive, which will add to the abundance, but not to the value of commodities (Principles XX, 278-9). These arguments reveal some important similarities and differences between Ricardo

and Smith. For, Ricardo's conclusion that in the first case the country would not only become rich, but the value of its riches would increase while in the second case wealth would increase, but not value is the same as Smith's with regard to *riches* (the wealth of nations) but is utterly different with regard to *value* (the exchangeable value of one commodity in terms of another). Hence the different meanings of the term value and the different variations of its magnitude in the two cases: while the value figured out by Ricardo (as increasing in the first case and remaining unchanged in the latter) is determined by the labour embodied in the necessities, conveniences and amusements of human life that make up the revenue or wealth of a country, Smith would intend the first part, and would restructure the second part, of Ricardo's sentence above in the sense that not only the quantity but also the value of riches (wealth) would increase in both cases. But while, according to Smith, this quantity would increase for the same reason as Ricardo's, its value would increase in the different sense that the resulting amount of riches (wealth) would be able to command an increasing amount of labour at a given wage rate (or a constant amount of labour at an increasing wage rate). Hence the more general similarities between Smith and Ricardo as one moves from their common views of wealth to their theory of capital as the main engine for its increase. Thus, in the very chapter on value and riches where he discusses the two ways in which the wealth of a country may increase, Ricardo speaks of capital as that part of the wealth of a country which is employed with a view to future production, and may be increased in the same manner as wealth i.e. again in two ways depending on whether, to use a subsequent terminology, the forms of accumulation are those of capital widening or capital deepening. Likewise, when in his chapter *On Wages* he comes to the distinction between the market and natural price of labour as well as to their variations in connection with the accumulation of capital, Ricardo still defines capital as that part of the wealth of a country which is employed in production, and consists of food, clothing, tools, raw materials, machinery, &c. necessary to give effect to labour (*Principles*, 95). Here capital is regarded in the same sense as wealth, i.e. not only as the capital or wealth of a country but also as a *stock* or a *flow*, depending on whether capital and wealth are considered at an instant of time (as it happens in the sentence just quoted) or in a period or sequence of periods (when capital and wealth equally appear as two flows of which one corresponds to the funds destined to the maintenance of productive labour while the other corresponds to the necessities, conveniences and amusements of human life available in a given period).

5. Wealth vs. value and rent

The notions of wealth and value reappear in Ricardo's chapter *On Rent*. Here, however, he fails to reutilize properly these notions while criticizing the priority assigned by Smith (and others, as he says) to agriculture in the reproduction of national wealth (*WN* II.v). For, however coherent with the principles of value and rent established in the two initial chapters of his *Principles*, Ricardo's criticisms are here incompatible with the spirit of Book II of the *Wealth* and in particular with its chapter V. For Smith uses the same term rent with two different meanings depending on whether it comes to the theory of value and distribution developed in Book I (where rent is defined as the price paid for the use of land) or to the theory of capital and reproduction developed in Book II (where rent is defined as the produce of those powers of nature, the use of which the landlord lends to the farmer). These different meanings were highlighted by Senior in the sense that the former refers to what occasions rent to be demanded (so that rent in this sense is an evil) while the latter is the other which enables it to be paid (so that rent in this sense is a good) (1965, 138 [1836]). Thus, while Ricardo seems to regard rent as an unavoidable evil (hence his view of the interests of landlords as always opposed to those of society), Smith seems to regard it as an evil in Book I and as a good in Book II (hence his view of those interests as strictly and inseparably linked with those of society). Now Ricardo gets rid of this seeming contradiction by suppressing one of the two terms on which this ambiguity is based. This is the notion of rent as a good i.e. as a net product. But, however consistent Ricardo's theory of rent may be with his own theory of value, his interpretation of Smith's ambiguous treatment of the same subject is flawed by his own inability to disentangle the notion of rent as the price that someone pays to someone else for the use of the land as the latter's property (a subject that belongs to the theory of the exchangeable value of commodities) from the notion of rent as the net product that comes to light when the harvest is compared with the advances required to obtain it regardless of who owns the land (a subject that belongs to the theory of wealth as a flow of use values). It is true, as Ricardo writes at the end of his final chapter on Malthus's opinions on rent, that 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*, 429). But here again Ricardo seems to be considering Smith's theory with the eyes of an author whose starting points are very different from those of the author he is criticizing. For the notion of rent as a net product can be accommodated in Smith's system of thought in spite of the heterogeneity of the commodities that mark the beginning and end of their reproduction periods. For the difference between the two flows of use values involved in the reproduction of rent can be overcome if one applies to it the notion of value adopted by Smith and rejected by Ricardo at the very beginning of their systems of thought. This is the notion of value as labour commanded. According to this notion, that difference represents,

whatever the heterogeneity of the goods going into and out of the process of reproduction, the power to command, directly or indirectly and inside or outside agriculture, a quantity of *labour* greater than the quantity spent to obtain this power. It is this, not the other, kind of rent that is in Malthus's mind when he regards rent as a cause of the otherwise impossible origin of cities, armies and fleets, arts, learning, etc. (1986, I.3.i [1836]).

6. A summing up

Except for some minor differences, Ricardo's notion of wealth is the same as Smith's. As such, it is used by Ricardo as synonymous with the notion of the *annual produce of the land and labour* or of the *necessaries, conveniences and amusements of human life* available in a country in a period. This coincidence permeates Ricardo's theory of wealth in so far as this theory is focused on the *progress*, as distinct from the *distribution*, of wealth. Thus, starting from a similar theory of wealth but from a very different theory of value, Ricardo develops some of his criticisms of Adam Smith's theory on the basis of his distinction between value and riches (wealth) as well as of his exclusive notion of rent as a price paid to the owner of land for the use of its original and indestructible powers. These criticisms are consistent with Ricardo's starting point on value as labour embodied and are in contrast with Smith's different starting point on value as labour commanded.

FERDINANDO MEACCI

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