Ricardo and Marx

By G. S. L. Tucker

I

Since the late nineteenth century a tradition has become established in the history of economic thought linking the names of Ricardo and Marx. This was summed up by Professor Schumpeter when he said: " Marx had a master then ? Yes. Real understanding of his economics begins with recognizing that, as a theorist, he was a pupil of Ricardo."[1] Some years ago Professor T. W. Hutchison made a similar point in an even more arresting way. In a review article following the publication of Piero Sraffa's edition of *The Works and Correspondence of David Ricardo*, Hutchison thought it interesting to inquire why Ricardo, among all others, had been singled out for such magnificent reprinting. It could not have been, he noted, by reason of Ricardo's " clearly positive " contribution to Socialist and Marxist economics, since " it was the Councillors of the Royal Economic Society in 1925, and not the Moscow State Publishing House, who sponsored this edition ".[2]

It has never been claimed that Ricardo, had he lived another twenty-five years, would have felt any sympathy for the ideas presented in the *Communist Manifesto*. Neither, to my knowledge, has anyone suggested that Ricardo and Marx were men of similar personal qualities. Hutchison refers to Ricardo's " natural intellectual modesty, detachment, and fair-mindedness ",[3] qualities, it could be argued, that do not emerge very clearly in the life and writings of Marx himself. The reason for linking the two names appears simply to be that Ricardo, unwittingly and with different ends in mind, developed a theory which was later used to provide the essential foundations of Marxian economics.

On some occasions this observation has been turned into an outright complaint against Ricardo. Thus Professor Hutchison cites at length the almost hysterical attack on Ricardo contained in Foxwell's introduction to Anton Menger's *The Right to the Whole Produce of Labour*, and refers to Keynes's report that when Foxwell " failed to deliver his presidential address on Ricardo to the Royal Economic Society, he excused himself on the ground that his onslaught on the man, who had convinced the world of the dreadful heresy of a necessary conflict between the interests of capital and labour, would have been too provocative ".[4] Hutchison adds the comment: " Whatever may be

[1] *Capitalism, Socialism, and Democracy*, 2nd ed., 1947, p. 22.
[2] " Some Questions about Ricardo ", *Economica*, vol. XIX (1952), p. 421.
[3] *Ibid.*, p. 432.
[4] J. M. Keynes, " Herbert Somerton Foxwell ", *Economic Journal*, vol. XLVI (1936), p. 592.

thought of President Foxwell's political preconceptions, or of his Celtic ' provocativeness ', there is from the point of view of a liberal neo-classical economist a certain forthright, straight-thinking logic in his point of view, with which it is difficult to feel sure that all neo-classical judgments of Ricardo's work were invariably imbued."[1] It could be argued, however, that those who reproach Ricardo, expressly or by implication, for his contributions to Socialist and Marxist economics do him less than full justice. This injustice may arise through what is left unsaid, or at best, half-said.

II

Professor Hutchison has noted that " many of the raw materials of the Ricardian-Marxian system are to be found in *The Wealth of Nations* ", though he seems to feel that Smith's contribution to Socialist and Marxist economics was small in comparison with Ricardo's. " It was Ricardo ", we are told, " who set up ' class ' distribution, dominated by the direct clash of interest between wages and profits, as ' the principal problem in Political Economy ', and it was Ricardo who contracted Adam Smith's ambiguous labour theory of value into a more rigid labour-embodied doctrine ". Two other aspects of Ricardo's work mentioned in this connection by Professor Hutchison are " his—to put it mildly—somewhat bleak view of the actual prospects and probabilities for wages (pious hopes are another matter), and finally . . . his analysis of the falling rate of profit ".[2] It may help to put things in better perspective, however, if we consider in more detail the case that could be made out (from the point of view of a liberal neo-classical economist) against Adam Smith himself.

We should be forced to concede that Adam Smith's theory of distribution was a " class " theory in exactly the same sense as Ricardo's, or, for that matter, the general run of economists at the time. It will not be necessary to labour this point. On the question of the relation between the interests of employers and workmen Smith seems, at least at first sight, to come off rather badly. Many will remember the passage in *The Wealth of Nations* where he says: " What are the common wages of labour, depends every where upon the contract usually made between those two parties, whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible. The former are disposed to combine in order to raise, the latter in order to lower the wages of labour."[3] Or again, his comment that in countries other than new colonies, " rent and profit eat up wages, and the two superior orders of people oppress the inferior one."[4] (Did Ricardo ever make a statement that seems so readily to invite misunderstanding ?) It is true that no very clear theory emerges in

[1] " Some Questions about Ricardo ", p. 421n.
[2] *Ibid.*, pp. 419-20.
[3] *Wealth of Nations*, Cannan ed. (1950), vol. I, p. 68.
[4] *Ibid.*, vol. II, p. 67.

The Wealth of Nations concerning the relation between changes in wages and profits. Ricardo claimed later that "Adam Smith, and all the writers who have followed him, have . . . maintained that a rise in the price of labour would be uniformly followed by a rise in the price of all commodities".[1] This observation stemmed from Smith's treatment of the effects of a rise in corn prices. Smith had held that this would make it necessary for employers to pay higher money wages to workmen (for otherwise the real wage of labour would fall); and in turn, the rise of money wages would lead to an increase in the prices of all goods produced by labour.[2] In this context he seems to suggest that an all-round rise of money wages would affect prices rather than profits, employers being able to pass on their higher costs to consumers generally.[3] Ricardo, as is well known, felt this to be an untenable solution, and tried to establish that such a rise of wages would affect profits, not the general level of prices. If this implies a "direct clash of interest between wages and profits", then he stands convicted.

But so, too, does Adam Smith in other parts of his work. Like Ricardo, he believed that the general rate of profit tends to fall as a result of the accumulation of capital (this point is worth stressing), and one of the reasons he gave to explain this tendency concerns the effects of a rise of wages. As the capital of a country increases, Smith argued, "the demand for productive labour . . . grows every day greater and greater. Labourers easily find employment, but the owners of capitals find it difficult to get labourers to employ. Their competition raises the wages of labour, and sinks the profits of stock".[4] Not only did Smith conceive of a wages-versus-profits relation of this kind: he went on explicitly to assert that because the rate of profit tended to fall, there might arise a lack of harmony between the interests of employers and those of the community in general. "But the rate of profit does not, like rent and wages, rise with the prosperity, and fall with the declension, of the society. On the contrary, it is naturally low in rich, and high in poor countries, and it is always highest in the countries which are going fastest to ruin. The interest of this third order, therefore, has not the same connexion with the general interest of the society as that of the other two."[5]

[1] *Principles of Political Economy and Taxation*, in *The Works and Correspondence of David Ricardo*, ed. Sraffa, 1951-55, vol. I, p. 46.

[2] *Wealth of Nations*, vol. II, pp. 11-12.

[3] In so far as consumers were themselves wage-earners, it would have followed (if Smith had pursued the logical implications of his theory) that the rise of prices would call for a secondary increase in the level of money wages, in order once again to preserve the current real wage; this secondary rise of wages would lead to a further price change, and so on. Ricardo would have pointed to the effects of this wage-price spiral upon the country's balance of international payments, and to the consequent deflationary influence of a contraction in the money supply, which would force employers themselves to bear the higher money costs of production without the compensation of higher selling prices (cp. *Works and Correspondence* vol. I, p. 105).

[4] *Wealth of Nations*, vol. I, p. 335.

[5] *Ibid.*, I, 249.

It could be argued, and rightly, that statements of this kind obscure the conception held implicitly by Smith of a real and fundamental harmony of interests between employers and workmen. In the circumstances of his own day, it was above all the merchant or master manufacturer who, by foregoing present consumption and undertaking the hazards of business, was responsible for the nation's new saving and investment; it was the labourer who immediately enjoyed the results, in the form of a greater aggregate of real wages paid out. On the other hand, the incomes of employers originated as a share in " the value which the workmen add to the materials " when engaged in production.[1] Smith would probably not have felt it necessary to emphasize this idea of a basic mutual dependence, for it would have appeared to him, as a man of his times, unlikely to be questioned. The same is true of Ricardo, but with this difference: whereas Smith showed little concern regarding the possible effects of a fall of profits upon the rate of new saving and investment, and hence upon the increase in the demand for labour,[2] Ricardo was very much aware of this problem. His theory of distribution does not indicate any real clash of interest between wages and profits. On the contrary, it was designed to show how, by means of a policy permitting free importation of corn and other necessaries, the rate of profit in Britain could be raised, and any future tendency for it to fall could be minimized. This would carry with it a high rate of new capital accumulation and the most rapid possible increase in the demand for labour. And it was surely in the interests of workmen that the demand for their services should grow as rapidly as it could.

There is the further question of Smith's theory of value. Could this conceivably have assisted the formation of Marxist ideas of " exploitation " or encouraged more general socialist claims of " the right to the whole produce of labour " ? Let us run together a few familiar sentences from Book I, Chapter VI of *The Wealth of Nations:*[3]

> In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. . . . In this state of things, the whole produce of labour belongs to the labourer. . . . As soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people, whom they will supply with

[1] *Ibid.*, vol. I, p. 50.

[2] See *ibid.*, vol. I, p. 94, where Smith argues that " A great stock, though with small profits, generally increases faster than a small stock with great profits "; also vol. II, p. 113.

[3] *Ibid.*, vol. I, pp. 49-51. One could play a similar game with statements extracted from the first two pages of Book I, Chapter VIII, beginning " The produce of labour constitutes the natural recompence or wages of labour. In that original state of things, which precedes both the appropriation of land and the accumulation of stock, the whole produce of labour belongs to the labourer " (*ibid.*, vol. I, pp. 66-7).

> materials and subsistence, in order to make a profit by the sale of their work, or by what their labour adds to the value of the materials. . . . In this state of things, the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock which employs him. . . . As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. . . . [The labourer] must give up to the landlord a portion of what his labour either collects or produces.

All this leads up to the simple proposition that in modern society the component parts of price are wages, profit and rent; but it seems quite possible that Smith's way of stating his argument, taken at its face value, could have given rise to radical interpretations.

There is in addition an interesting passage in " An Early Draft of Part of *The Wealth of Nations* " (*c.* 1763), published some twenty years ago by Professor W. R. Scott. This " Draft " was not available, of course, to influence radical thought in the nineteenth century; and it happens that in Smith's completed work the corresponding section was pruned very considerably.[1] It may be useful, however, to quote parts of it as originally set down, at least as an indication of ideas that lay behind the writing of *The Wealth of Nations:*[2]

> In a Civilized Society the poor provide both for themselves and for the enormous luxury of their Superiors. The rent, which goes to support the vanity of the slothful Landlord, is all earned by the industry of the peasant. The monied man indulges himself in every sort of ignoble and sordid sensuality, at the expence of the merchant and the Tradesman, to whom he lends out his stock at interest. All the indolent and frivolous retainers upon a Court, are, in the same manner, fed cloathed and lodged by the labour of those who pay the taxes which support them. Among savages, on the contrary, every individual enjoys the whole produce of his own industry. There are among them, no Landlords, no usurers, no taxgatherers . . . with regard to the produce of the labour of a great Society there is never any such thing as a fair and equal division. In a Society of an hundred thousand families, there will perhaps be one hundred who don't labour at all, and who yet, either by violence, or by the more orderly oppression of law, employ a greater part of the labour of the society than any other ten thousand in it. The division of what remains too, after this enormous defalcation, is by no means made in proportion to the labour of each individual. On the contrary those who labour most get least.

Smith was lucky: if he had reproduced this passage in full in *The Wealth of Nations*, it might have been taken up by a later " forerunner of Marx " such as Thomas Hodgskin, to whose righteous indignation it could have been made to lend welcome support. Certainly Smith's purpose in this part of the " Draft " was simply to highlight the

[1] *Ibid.*, vol. I, p. 2, beginning " Among the savage nations of hunters and fishers. . . ."
[2] W. R. Scott, *Adam Smith as Student and Professor*, 1937, pp. 326-7.

immense effects of the division of labour in raising productivity. Owing to these effects, and in spite of the "enormous defalcation", the striking fact was that in modern society the lowest labourer not only lived better than his primitive fellow, but better even than the chief of a savage nation. But those acquainted with Hodgskin's *Labour Defended* (1825) will know that this observation would have done little to mollify him, for he expressly claimed that any improvement in real wages over those obtained in times past was irrelevant to the question of how labour *ought* to be paid to satisfy justice.

The residual charges against Ricardo are that he gave much greater prominence than did Adam Smith to the theory of distribution; and that, while hoping for the best, he has the appearance of being less optimistic than Smith about probable future increases in real wages per head. These charges cannot be denied, but at least they can be explained. Ricardo had no desire to re-write those parts of *The Wealth of Nations* with which he agreed; as he said to James Mill, "I should be only doing badly what has already been admirably well done".[1] It happens that he found Smith's analysis of distribution loose and unsatisfying in several respects. This helps to account for the changed emphasis given to political economy in Ricardo's *Principles*, though we must also remember the peculiar stimulus given to economic inquiry by British post-war problems such as the Corn Laws and taxation. He could hardly be expected to ignore the practical issues that interested his contemporaries, and in this sense he was virtually forced to take part in discussions of questions connected with the theory of distribution.[2]

At the same time he was greatly influenced by Malthus's writings on population. In the long run, as Professor Hutchison points out, Ricardo believed that the effects which a rapid increase of capital might otherwise have produced in raising real wages would be largely offset by an expansion of population. This, in the last resort, explains his failure to predict any very marked future improvement. It is worth noting that Ricardo's "Malthusianism" in this connection was not logically inconsistent with his desire, resting partly on welfare grounds, that Britain's capital should continue to increase as rapidly as possible. Although the effects upon real wages of a rapid accumulation of capital would be largely offset by an expansion of population, they would not be *wholly* offset. To induce population (or the supply of labour) to grow at a higher rate, corresponding to a higher rate of growth of capital (or demand for labour), real wages would have to improve to some extent; and they would remain at this level so long as the higher rate of population growth was called for. This would be necessary in order to give a greater incentive to marriage and to permit labouring families to rear successfully larger numbers of

[1] Letter to Mill, 17 November 1816, *Works and Correspondence*, vol. VII, p. 88.
[2] For a more detailed discussion of this point, see my "The Origin of Ricardo's Theory of Profits", *Economica*, vol. XXI (1954), pp. 320-33.

children. In other words, if we imagine a schedule showing the various levels of real wages required to ensure different rates of growth of population, the resultant curve would not be horizontal but upward-sloping.[1] It may be objected that this simply means, in conditions of rapid economic growth, that the higher real wage obtained by each workman would be spread over a larger family. Perhaps so; but it would have been thought an improvement, surely, if men could witness a decline of mortality-rates among their own children.

Having accepted Malthus's theory, Ricardo was bound to take a " somewhat bleak view of the actual prospects and probabilities for wages ". What would have been the alternative? To reject Malthus; to hold that a tendency towards improvement in economic conditions would have little effect in stimulating population growth, even among uneducated people little given to worrying about the future; to argue that the Malthusian lesson regarding the need for prudence in working-class marriage habits was not worth teaching; to maintain a vague but determined optimism about probable future improvements in material welfare in the hope that it would be shared by everyone else, including of course Marx, who was at the time shortly to be born.

III

So far, on behalf of the pot, I have been calling the kettle black. One cannot hope to clear Ricardo by attempting to make Smith appear equally culpable—though at least it may help to spread the blame more lightly. What of the Ricardian legacy in Marx's *Capital*, especially the labour theory of value, with which Marx's ideas of surplus value and exploitation seem to be so intimately connected?

Here we may ask, first of all, whether it would be possible to hold the " labour " theory of value, as developed by Ricardo, without feeling impelled towards Socialism or Marxism? Except perhaps in the case of land-rent, I cannot myself see that Ricardo's theory suggests any unfavourable judgment of the ethical nature of income distribution under capitalism. So far as wages and profits are concerned, it seems to me to be quite innocuous—when properly understood. At the cost of repeating a point made earlier in this paper, let us consider what Ricardo was trying to do. (There will be no novelty in this, for an explanation was given long ago by Professor J. H. Hollander.)[2]

Ricardo, as everyone knows, was interested in the Corn Law debates of 1813–15. To many opponents of the Corn Laws it seemed clear that restrictions upon the importation of cheap foreign corn would tend to raise bread prices in Britain; and it was often assumed, both by members of Parliament and political economists, that such a rise of bread prices would lead to an increase in the general level of money

[1] In effect, Ricardo describes such a schedule in his *Principles;* see *Works and Correspondence*, vol. I, p. 101.

[2] J. H. Hollander, " The Development of Ricardo's Theory of Value ", *Quarterly Journal of Economics*, vol. XVIII (1904), pp. 455-91.

wages. What effects would be produced by this? Would not the prices of all other goods rise in proportion to the higher money wages paid by employers? Arguments of this kind were sometimes used in the House of Commons by speakers who then went on to condemn protection to British agriculture on the ground that the country's export trade in manufactured products would be injured by a loss of competitive ability in foreign markets.[1] A similar theory was presented by Robert Torrens in 1815.[2] What Ricardo did essentially was to carry this argument forward to its logical conclusion. If all prices, including export prices, rose in response to the change in money wages, and if as a consequence export earnings diminished while imports increased, there would be a loss of gold from Britain through a deficit in the balance of payments. Far from obtaining the additional quantity of money necessary to support a higher domestic price level, the country would find that gold " would go from home to be employed with advantage in purchasing the comparatively cheaper foreign commodities ".[3] The inference is that deflation at home would proceed until prices had returned to their former level and stood once again in a proper relation with those overseas. The ultimate effect of the rise in the prices of corn and labour would therefore be a fall of profits, not a rise of prices generally.

Alternatively, it was possible to develop a more formal version of this theory by arguing, as Ricardo did in the first chapter of his *Principles*, that " the value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not the greater or less compensation which is paid for that labour ".[4] This led to the same conclusion: the Corn Laws would tend to produce a fall of profits, not a general rise of prices. If Britain refused to import foreign corn, its natural price at home would rise in proportion to the greater quantities of labour (applied directly, or indirectly, in the form of capital equipment) necessary for the production of successive equal increments in supply—or more simply, corn prices would rise in proportion to the increase in marginal real costs. In turn, money wages would rise throughout the economy so as to enable the labourer to maintain his consumption. These higher wages would not lead to a systematic rise in the prices of manufactured goods, for in their case there had been no change in the *quantity* of labour required for production; and there would be no justification for any additional rise in the price of corn (over and above that appropriate to the

[1] See, for example, *Hansard's Parliamentary Debates*, vol. XXIX (1814-15), 813-14, 837, 968, 1059-60, 1067, 1211-12; vol. XXX (1815), 101.

[2] *An Essay on the External Corn Trade*, 1815, pp. 226-7, 236-7. There are clear signs, even at this time, that Torrens realized this argument was incomplete (see pp. 88-9). Later, in the 3rd edition of his *Essay*, he took up a more " Ricardian " position on this question.

[3] *Principles in Works and Correspondence*, vol. I, p. 105.

[4] *Ibid.*, vol. I, p. 11.

increase in marginal real costs), for farmers had already received all that was necessary to keep their profit-rates level with those gained in manufacturing. There would be, however, a general fall of profits in both manufacturing and agriculture, corresponding to the higher money wages now paid by employers.

If for simplicity we take an economy composed solely of capitalists and labourers, we can think of Ricardo's theory of value as showing that if labourers *cannot* bear the loss occasioned by a tendency towards diminishing marginal returns in home agriculture (while still supplying the requisite increase in their own numbers), capitalists *must* bear it. If he is to be criticized, it should be on the ground that he made this point in an unnecessarily roundabout and complicated way, the more so because the proposition that values depend on relative quantities of labour-embodied could not be left as it stood. In so far as different commodities were produced with unequal combinations of fixed and circulating capital, with fixed capital of varying degrees of durability, or with circulating capital which was returned to its employer in unequal times, a general rise of money wages could be expected to cause a change in *relative* prices, even when it was assumed that quantities of labour-embodied remained the same.[1] Ricardo's development of this idea did not affect his conclusion that employers could not " pass on " the loss arising from higher money wages; what he did, essentially, was to show that a readjustment of relative prices might be necessary to ensure that profit-rates were reduced to the same extent in all industries—and of course only equality of profits was consistent with equilibrium. In fact, as Professor Stigler has recently suggested,[2] Ricardo's views on value would be better described as a cost of production theory rather than a labour theory—" cost of production " because he did not hold that relative values were determined solely by relative quantities of labour-embodied, although it could perhaps be argued that the term " labour theory " is worth preserving if only to remind us that there were important differences between Ricardo and Adam Smith. Unlike the latter, Ricardo consistently denied that employers could avoid the effects of a systematic rise of money wages by charging universally higher prices. It is not at all clear that such a theory, taken as it stands, can be regarded as a critique of capitalism.

To guard against any possible misunderstanding, it may be worth while to ask two further questions about Ricardo. First, is there any suggestion that employers, unlike labourers, make no productive efforts or sacrifices, and are therefore not entitled to a reward? Here it is difficult to do more than assert that his work contains no argument of this kind. In point of fact, it did not occur to him to raise the question of the ethical nature of profits, and there is little to indicate his views one way or the other. However, one passage in the *Principles* may

[1] *Ibid.*, vol. I, pp. 30 ff.

[2] " Ricardo and the 93% Labor Theory of Value ", *American Economic Review*, vol. XLVIII (1958), pp. 357-67.

throw some light on them incidentally. After stating that " no one accumulates but with a view to make his accumulation productive " and that " without a motive there could be no accumulation ", Ricardo went on to say: " The farmer and manufacturer can no more live without profit, than the labourer without wages. Their motive for accumulation will diminish with every diminution of profit, and will cease altogether when their profits are so low as not to afford them an adequate compensation for their trouble, and the risk which they must necessarily encounter in employing their capital productively."[1] This makes profits appear as a reward necessary to induce men to undertake the troublesome and hazardous business of carrying out new saving-and-investment. A socialist might argue that this signifies little: the function of the capitalist could alternatively be taken over by the State, and at less cost to the community. But as Mrs. Robinson has noted, this reply could equally be made to Marshall's doctrine of " waiting "—and no one has yet accused Marshall of fostering radical doctrine.[2]

Secondly, did Ricardo claim, like Marx, that profits arise exclusively from the employment of living labour (Marx's variable capital), and not from such things as plant and equipment? This can confidently be regarded as a peculiarly Marxian piece of hocus-pocus, contained in the first volume of *Capital*, and finding no counterpart in Ricardo's work. Here it is possible to quote Professor Stigler, who points out that in Ricardo's *Principles* " it is made utterly clear that the contribution of the fixed capital consists of not only amortization quotas but also interest on the investment ".[3] From this point of view it could be suggested that Ricardo's " labour " theory of value has its nearest equivalent, not in Marx's labour theory as expounded in vol. I of *Capital*, but in his " prices of production " theory to be found in vol. III. Once Marx had recognized that " organic compositions of capital " varied as between different industries, he ran into logical difficulties in his assumption that a capitalist's profit arose solely from the employment of living labour. For if each capitalist received profits in proportion to the amount of labour he employed (that is, in proportion to his wage payments or variable capital), and hence if all commodities sold at their values as determined in vol. I, then rates of profit on *total* capital (variable plus fixed) would be unequal in different industries—a position inconsistent with equilibrium. All this is familiar. The Marx of vol. III would allow that, given competition and mobility, even an industry which had achieved complete automation would gain profits at the current rate; or in the words of P. M. Sweezy's excellent summary, " Capitalists . . . will share in the pool of surplus value according to the size of their total capitals

[1] *Principles in Works and Correspondence*, vol. I, p. 122.
[2] Joan Robinson, *An Essay on Marxian Economics*, 1942, p. 25.
[3] " Ricardo and the 93% Labor Theory of Value ", p. 360. Stigler cites *Works and Correspondence*, vol. I, p. 39; see also letter to Mill, 14 October, 1816, *ibid.*, vol. VII, p. 83.

instead of, as before, according to the size of their variable capitals. The prices of commodities (what Marx calls ' prices of production ') will now be made up of the capital expended in production plus a profit calculated as a certain percentage of the capital outlay ".[1] But this is the Ricardian position, subject only (as we have seen) to a reservation that an *all-round* rise of money wages will affect profits, not the general level of prices. This reservation distinguishes Ricardo from Adam Smith, while the proposition that all profits arise from living labour distinguishes the Marx of vol. I from Ricardo. In this sense there may be grounds for regarding Marx's original theory of value—the theory of vol. I—as a long and rather tedious deviation from Ricardian orthodoxy rather than as a straight repetition of Ricardo's ideas.

IV

Recognition of the differences between the Ricardian and the Marxian theories of value must have the effect of weakening the links that are supposed to connect the two men. It is probably true, nevertheless, that a reading of Ricardo's *Principles* assisted Marx to some extent in the task of preparing his own version of the theory of value (that is, the vol. I variety)[2]; and this in turn has the appearance in *Capital* of serving as the basis of the Marxian theories of surplus value and " exploitation ". Thus it might still be held that Ricardo contributed a little, indirectly, to the development of the latter doctrines. This being so, it will perhaps be interesting to inquire whether Marx's labour theory of value was a necessary logical preliminary to the presentation of the theory of surplus value. Could Marx have stated essentially the same ideas, with the same or even a greater show of plausibility, without the help of the labour theory? If we find that he could, then presumably the responsibility attaching to Ricardo will be even further diminished.

Marx must have believed that he really needed the labour theory of value—otherwise why should he have gone into it at such length? Perhaps we can test its importance by imagining, first of all, an economy in which only one commodity is produced, say wheat. Here there will be no problem of determining the relative values of different products. Is it possible in these circumstances to set out a Marxian theory of profits which represents them as a surplus based on exploitation of labour?

It would seem so, provided one is prepared to accept Marx's idea of what constitutes " exploitation ". Let us suppose that we stand in a hypothetical day of Genesis, before cultivation has begun, when a minority of the population (bourgeoisie) possesses stocks of wheat, while the rest (proletarians) have nothing but their hands. The

[1] *The Theory of Capitalist Development*, 1946, p. 112.

[2] Marx called Ricardo's theory of the magnitude of value " the best analysis to date "—see *Capital* (Everyman edition), p. 54n.

proletarians, even if they enjoy free access to land, must obtain food during the year to support them until the harvest; they can obtain it only by agreeing to give up the whole harvest to the capitalists on the condition that the latter will advance them present wages. The wage-earners are in fact allowed just sufficient for their subsistence, and during the year they work for more hours than would have been necessary to reproduce this amount of wheat (that is, they perform surplus labour). Thus after the harvest the capitalists recover all the wages advanced and in addition receive something more: a surplus of wheat attributable to the excess labour time expended by the wage-earners. (The rate of exploitation, according to Marx, will be given by the ratio of this surplus to the total wages paid out, both measured in bushels of wheat.) At the beginning of the next year the process begins again; for the workers, being unable to save out of their wages, once more find themselves in a position where they must depend upon the capitalists for their present subsistence, and work for longer than " necessary " in order to obtain it.

This appears to be consistent with Marx's ideas, but he would probably have raised an objection. We cannot avoid the problem of value under capitalism, even hypothetically, by considering an economy in which only one good is produced, because labour power is itself a commodity. This gives a theoretical minimum of two commodities—labour power and its product—and a theory of value will be necessary to determine the exchange relation between them, or in other words, the real wage of labour. Hence we may be tempted to assume that the most vital function of the labour theory of value in Marx's work was to provide a theory of wages. His conclusion ran as follows[1]:

> The value of labour power, like that of every other commodity, is determined by the labour time necessary for the production, and consequently for the reproduction as well, of this specific article. . . . Now the living individual requires for his maintenance a certain amount of the means of subsistence. This leads us to the conclusion that the labour time necessary for the production of labour power is the labour time necessary for the production of these means of subsistence; or, in other words, that the value of labour power is the value of the means of subsistence necessary for the maintenance of the owner of labour power.

Wages will be just sufficient for the subsistence, at customary standards, of workers and the children who are to replace them at death. This, in effect, purported to show why wages did not absorb the whole product: profits existed, Marx argued, because " the daily cost of maintenance of labour power, and the daily output of labour power, are two very different things ".[2] It also suggested that real wages would be related to the worker's needs rather than any increases in his productivity.

[1] *Capital*, p. 158.
[2] *Ibid.*, p. 187.

If this was the most important application of the labour theory of value, it was also the least convincing. Thus Professor Schumpeter has said: " The labor theory of value, even if we could grant it to be valid for every other commodity, can never be applied to the commodity labor, for this would imply that workmen, like machines, are being produced according to rational cost calculations. Since they are not, there is no warrant for assuming that the value of labor power will be proportional to the man-hours that enter into its ' production '. Logically Marx would have improved his position had he accepted Lassalle's Iron Law of Wages or simply argued on Malthusian lines as Ricardo did. But since he very wisely refused to do that, his theory of exploitation loses one of its essential props from the start."[1] A formal application of the labour theory of value does nothing to explain *why* wages should correspond to the worker's maintenance costs—unless of course Marx meant it as a tautology, " subsistence " being defined implicitly as whatever the worker is in fact found to consume at any time or place, from potatoes to silk shirts. In this case the theory ceases to be logically unsatisfactory and becomes instead empty and useless, a waste of the reader's time. Either way, it is clear that almost any reformulation of Marx's argument would have a better prospect of escaping criticism. It would not necessarily succeed, but at least it might have more of a fighting chance.

Marx does in fact attempt something of this kind in the latter part of the first volume of *Capital*.[2] Let us revert to our " one-product " economy and assume that, at an early stage of its development, wages become established round about a subsistence level. (This is presented as an historical observation, not a theoretical necessity deducible *a priori* from the labour theory of value.) Population is growing; so, too, is capital, and hence the demand for labour, as employers accumulate a part of their wheat-profits each year and pay out wages to additional men. If capital and population happen to grow at the same rate, there will be no upward pressure on wages. However, if capital grows more rapidly than population, there will be an increasing scarcity of labour and wages will rise at the expense of profits, so reducing the rate of surplus value or " exploitation " and (to use Marx's alternative phrase) blunting the stimulus of gain. " But as soon as this decline reaches the point at which there is no longer a normal supply of the surplus labour by which capital is nourished, a reaction sets in. Then a smaller proportion of the revenue [profits] is capitalised, accumulation flags, and the upward movement of wages is counteracted. Thus the rise in the price of labour is restricted within limits which not only leave the foundations of the capitalist system untouched, but actually ensure its reproduction upon an increasing scale."[3] In short, Marx could argue that in an early period

[1] *Capitalism, Socialism, and Democracy*, pp. 27-8.
[2] The following is based on ch. XXIII, section 1.
[3] *Capital*, p. 685.

of capitalism labourers worked for more hours each day than would have been necessary to provide their own maintenance (which is his own way of saying that their employers obtained profits), and he could then attempt to prove that the economic system contained a built-in mechanism which would prevent wages subsequently from rising so much as to absorb a significantly greater proportion of production. Hence the continued existence of profits and " exploitation ".

But Marx's political objectives required that he should try to prove more than this. The theory outlined above does not deprive wage-earners of the hope of an improvement in their living standards, following an increase in the productivity of labour. Real wages need not remain tied to subsistence; on the contrary, any increases in productivity will allow wages to rise *pro rata* without a reduction in the rate of surplus value or " exploitation ". Hence a second barrel to Marx's argument: the theory of the Industrial Reserve Army.

This is well known and need not be discussed in detail. Each capitalist, Marx believed, had an incentive to seek the high profits temporarily available to a firm that carried out a cost-reducing innovation; and he thought of these innovations as taking the form chiefly of the invention and introduction of machinery as a substitute for the employment of living labour.[1] From this he concluded that although a country's total capital might grow more rapidly than its population, the " variable " component of capital (funds used to pay wages) would decline progressively in relative importance. In fact, it was asserted, variable capital will not only grow less rapidly than total capital: it will also fail to keep pace with the growth of the labour force, so creating a tendency towards chronic unemployment in the long run. In turn, the unemployed, by their competition for jobs, will prevent wages from rising in proportion to improvements in the productivity of labour. " During the periods of stagnation and average prosperity, the industrial reserve army presses upon the army of active workers; and during the periods of overproduction and boom, the former holds the claims of the latter in check."[2] Wages could be expected to remain at or near a conventional subsistence level for those able to obtain employment, and the proletariat would become progressively immiserized in the course of capitalist development.

So the story went. It will be noticed that, in principle, an argument of this kind involves us further in problems of value, since we now have to deal with exchange relations between at least three commodities: the product, labour power, and machinery. Whether or not this need be the Marxian version of the labour theory of value is a separate

[1] *Ibid.*, pp. 330-1, 432-3. Marx's explanation of the incentives towards technical change is not very clear. An alternative interpretation offered by P. M. Sweezy suggests that " Marx thought of the introduction of labour-saving machinery as a more or less direct response on the part of capitalists to the rising tendency of wages " (*op. cit.*, p. 88). The rising tendency of wages is that which would otherwise have been produced by the accumulation of capital and an increasing demand for labour, had the technical methods of production remained unchanged.

[2] *Capital*, p. 706.

question. I cannot myself see any close logical connection between the labour theory on the one hand and the theories of " exploitation " and " immiserization " on the other. In so far as Marx held that " a surplus working-class population is a *necessary* product of accumulation ",[1] his conclusion would be unsatisfactory even if one accepted the labour theory of value. The most that could be done to meet Marx on this point would be to regard chronic unemployment, not as an inevitable effect of technical progress, but as a possible consequence, given a particular combination of values of the relevant variables. But those adopting this view do not need to accept the labour theory —the possibility of such unemployment could be conceived by economists brought up in a very different tradition.

It would be tempting to sum up by saying that Marx, *as an economist*, gained very little from his labour theory of value. In its vital application to the determination of wages it is wholly unconvincing—as it would have been to Ricardo, except in association with the Malthusian doctrine of population, and as it should have been to Marx himself. The alternative line of reasoning which has just been discussed is more promising, and if Marx had not been so anxious to prove the inevitability of unemployment, immiserization and revolution, might have led to useful results. From this point of view it is interesting to speculate whether a present-day Marxist could perhaps be persuaded to attempt a reformulation of Marx's doctrines, dropping the labour theory altogether, and working to logically acceptable conclusions regarding the possible range of effects of various rates of accumulation and technical progress on such things as employment and wages. Reflection suggests, however, that this would be redundant: the work has already been undertaken, in effect, by non-Marxist economists of the post-Keynesian period.

One final reservation. There is no suggestion in what has been said so far that the Marxian version of the labour theory of value was impotent from the outset as a propagandist weapon. If radicals with a taste for natural law can be induced to accept on faith the untestable assertion that all profits arise from the daily exertion of living labour, and not from inanimate plant and equipment owned by the employers, then presumably their desire to get rid of capitalism will be reinforced. But as we have seen, this assertion owes nothing to Ricardo.

V

Professor J. H. Hollander once said that " the effective contribution of Ricardo to economic science was not content but method ".[2] It might be added: Yes, and this includes Marxian method. Has not Schumpeter argued that Marx " learned the art of theorizing from Ricardo " ?[3] Here there would be an element of truth, but even

[1] *Ibid.*, p. 698 (my italics).
[2] *David Ricardo: A Centenary Estimate*, 1910, p. 129.
[3] *Capitalism, Socialism, and Democracy*, p. 22.

on questions of method it is important to recognize that there were differences between Ricardo and Marx, differences which seem to be more striking than those between Ricardo and his more orthodox English successors. At the risk of paradox it could be said that Marx was at once more " abstract " and more " empirical " than Ricardo. Perhaps this can best be explained by taking two examples.

It has been argued that Ricardo's " natural prices " or values find their nearest equivalent in Marx's " prices of production ". Both are abstract conceptions and have to be distinguished from actual day-to-day market prices—but at least they have a connection with reality in that they represent positions towards which market prices are held to be constantly *tending* (given the usual assumptions regarding competition and mobility). This is not true, however, of Marx's " values " as they are presented in vol. I of *Capital.* There will be no tendency towards equality between market prices and values even in the longest of long runs, because as Marx himself well knew, technical conditions would give rise to permanent differences in the organic compositions of capitals required for the production of different commodities. In this sense " value " depended simply on a definition; or as Mrs. Robinson says: " As I see it, the conflict between Volume I [values] and Volume III [prices of production] is a conflict between mysticism and common sense. In Volume III common sense triumphs but must still pay lip-service to mysticism in its verbal formulations."[1]

At the other extreme, Marx's " immiserization " thesis provides an example of an argument which seems to depend, in the last resort, on an historical generalization, a method of reasoning totally foreign to Ricardo himself. As we have seen, Marx claimed that the growth of total capital would be accompanied by a progressive rise in its organic composition, or in other words, a progressive relative fall in its " variable " component. He then added: " This accelerated relative decline in the variable constituent, a decline that accompanies the accelerated increase in total capital and proceeds more rapidly than this increase, takes the inverse form, at the other pole, of an apparently absolute increase in the working population, an increase *always* proceeding more rapidly than the increase in the variable capital or in the means of employment."[2] It has already been suggested, however, that Marx's writing contains no theoretical justification for such a conclusion. If we take as given the rates of growth of total capital and the working population, whatever they may be at a particular time and place, is there any good reason for assuming that the rise in the organic composition of capital *must* be so rapid as to cause chronic unemployment? The exact pace of new invention and technical change is not discoverable *a priori;* therefore even if we accepted the general framework of Marx's analysis, the idea of a long-run tendency for the growth of the working population to outstrip that of variable

[1] *An Essay on Marxian Economics*, p. 18n.
[2] *Capital*, p. 695 (my italics).

C

capital could not be regarded as an inevitable outcome, but merely as one logical possibility which might or might not be realized in practice.

Since we cannot reason *a priori* to a conclusion that " a surplus working-class population is a necessary product of accumulation ", the alternative is to assume that Marx meant it as a generalization based on his observation of history. It would be premature to rule decisively for or against the correctness of Marx's views on the economic history of his own time, for the question whether the condition of British wage-earners was generally improving or deteriorating during the earlier phases of the Industrial Revolution is still a matter of debate. No doubt he exaggerated very considerably on the side of gloom, but this is not the important point. What is important is that Marx, thinking he had observed a clear trend towards immiserization in the past, was prepared, it seems, to project this trend into the future and to depict it as an inevitable feature of capitalist development. This generalization from the supposed teachings of history was not made in a direct and obvious way. Marx did not say to his readers: as far as I can see, the condition of the working class has declined in the past; therefore I conclude that it will become even worse in the future. Instead, he proceeds with a piece of theoretical analysis in which the prime cause of immiserization in all its various aspects is found to be the rise in the organic composition of capital. This, as we have seen, is held to take place so rapidly as to render a part of the working population redundant. The historical generalization relates directly to the speed with which labour-saving machinery will be invented and introduced, and hence, via theory, to changes in the general conditions of working-class life.

VI

There is no doubt that Marx relied partly on raw materials drawn from English " classical " political economy, including the work of the greatest early nineteenth-century classical writer, Ricardo. This point is not in dispute. It is important, however, that we should form a balanced judgment of the extent of Ricardo's contribution to Marxian economics. The errors, I believe, have been ones of emphasis or degree, and may have arisen in the first place from nineteenth-century misunderstandings of the nature and significance of Ricardo's doctrines. It is all too easy, for example, to slip into a casual assumption that the Ricardian theory of value has implications for socialism; but what happens if one stops to ask the question why? If it is true that there *are* implications of this kind, I should like to see them explained in detail.

To take an extreme case, it would be wrong to think of Marx's economics as little more than a corollary of Ricardo's; such a view greatly exaggerates the contribution made by Ricardo and understates that made by Marx himself. Other key assumptions had to be added by Marx in order to produce the desired results; if this were not so, how could one account for the fact that John Stuart Mill, who was at least as good a logician as Marx, did not find himself driven to Marxist conclusions? Even Marxist historians, notwithstanding their fondness for regarding their theories as a natural outcome of the classical tradition, would do well to admit this point; for otherwise Marx must appear to them simply as a man who picked up and put a few finishing touches to a logical chain that someone else had carelessly left lying around.[1] Historians generally seem to be equally in danger of assuming, in connection with Marx's economics, that it was all—or nearly all—in Ricardo; and that they must hold out Ricardo, without much qualification, as the intellectual father of Marx. But perhaps this need not be so. Fresh discussion may lead to a reappraisal and more careful interpretation of the relation between the two systems of thought.

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[1] It is worth noting, perhaps, that *The Great Soviet Encyclopædia* does not appear to be particularly enamoured of Ricardo and provides an imposing list of points against him. These include a comment that he did not understand the real nature of value (see vol. 36 of the 2nd edition). (I am grateful to Dr. Edgars Dunsdorfs for a translation from this source.)