Title	The Persistent Misinterpretation of Ricardo's Value Theory
Sub Title	
Author	Whitnack, R. C.
Publisher	慶應義塾理財学会
Publication year	1915
Jtitle	三田学会雑誌 (Keio journal of economics). Vol.9, No.3 (1915. 3) ,p.311(89)- 319(97)
JaLC DOI	
Abstract	
Notes	雑録
Genre	Article
URL	https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AN00234610-19150301-0089

雜錄

The Persistent Misinterpretation of Ricardo's Value Theory.

One of the most curious and baffling illusions in the whole range of economic thought is the notion that Ricardo did not get beyond the "labor theory" of value,-curious because it has persisted so long, baffling because it appears again and again in the pages of contemporary economic historians and theorists.

Karl Marx, as is well known, was the author of this popular misconception; but Marx cannot be held responsible for its continued propagation. Devoting his attention mainly to the first three sections of Ricardo's chapter on Value, and making the utmost of some verbal inaccuracies, Marx erected his famous theory, with its corollaries of "surplus value" and "exploitation of labor," to wit; "A commodity has a value because it is a crystallization of social labor........The relative values of commodities are determined by the respective quantities or amounts of labor, worked up, realized, fixed in them." Marx placidly ignored or misunderstood the painstaking demonstration which Ricardo offered, in his third, fourth and fifth sections, that the different qualities of labor must be considered (though the consideration which he gave to it was not adequate); that exchange value is measured by the quantity of labor in "the early stages of society, before machinery and durable capital is used"; and, further, that "compensation for time" (i. e., interest on capital) must be conceded under capitalistic conditions. Marx disregarded the place of interest in cost of production; whereas Ricardo specifically included "profit," which in his analysis embraces interest. It is our purpose to place this phase of Ricardo's theory in as clear a light as the limitations of space will permit.

Before proceeding with that task, however, we have to note, with not a little dismay, that the misconstruction placed upon the Ricardian theory by Marx has permeated the work of economic historians down to our own day. Ingram, for example, makes the amazing assertion that "Ricardo constantly takes no notice of capital, mentioning labor alone in his statement of this principle" (value).× Professor Gide, accepting the conventional interpretation of Ricardo without analysis, remarks cavalierly: "Confronted with this terrible question (value) his vigorous spirit has not been more successful than his predecessors."± The latest historian puts at least one foot into the trap: Professor Haney says of Ricardo's theory, "The entrepreneur's expenses are substantially proportionate to the quantity of labor he uses. The payment of interest of different rates causes an almost negligible variation."+ Haney passes too hastily over this subject; for if the introduction of capital injects ever so slight an influence on relative values in the form of interest expense, we are confronted logically with a complete break-down of the pure labor theory. The theoretical significance of Ricardo's "compensation for time" ought not to be obscured by saying that its quantitative effect is negligible. And as a matter of fact the effect of Ricardo's injection of interest into costs is not quantitatively negligible, as we shall

× Ingram, A History of Political Economy, 1909, p. 125.
± Gide et Rist, Histoire des Doctrines Economiques, 1909, p. 162.
+ Haney, History of Economic Thought, 1911, p. 218.

try to prove. The error is the more surprising in view of Marshall's plain hint: Ricardo "regarded cost of production as dependent......on the quality as well as quantity of labor; together with the amount of stored up capital needed to aid labor, and the length of time during which such aid was invoked."×

Not only historians, but theorists of the most acute insight have fallen into this error; unwittingly, it must be supposed, but none the less censurably. Illustrations might be multiplied, but we shall content ourselves for present purposes with one, drawn from the latest American treatise. Professor Davenport, in analysing the Ricardian theory of rent (with which we need not concern ourselves here) imputes to Ricardo a pure labor theory of value, thus: "If prices of products were to be made proportional either to the labor applied or to the wages expended, the products must have their prices determined where nothing but wages or labor entered into the costs."± Davenport nowhere recognizes Ricardo's insistence upon the inclusion of "profits" in cost of production.

Ricardo's Value Theory Examined.

We pass on to the main task. Did Ricardo really include interest in cost of production? And if so what influence had the fact on his labor theory? Let it be admitted at once that Ricardo did not see his way clear to cast overboard the value theory which his forerunners, through Adam Smith, supplied him, to wit: "In the early stages of society the exchangeable value of commodities depends almost exclusively on the comparative quantity of labor expended on them."+ Let it be

× Marshall, Principles, 5th ed., p. 503,
± Davenport, The Economics of Enterprise, 1913, p. 186.
+ Ricardo, p. 7 (Reference in all cases will be to Gonner's edition).

admitted that his is not a philosophical, that is to say, causal, explanation of value even with respect to commodities of a primitive society. Ricardo was obviously not interested in the psychology of the value concept, but in the measure of exchange value; he limited his attention, furthermore, to the exchange value of "such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint." It is evident, also, from his distinction between "natural" and "market" price that he was seeking the law of "permanent variations" over long periods. That he did not analyse utility and the forces of demand is obvious, and militates effectively against the adequacy of any theory he might propound on the basis of costs. This much is easily apparent in the light of modern doctrine.

But the immediate contention has nothing to do with "utility"; it grants all the criticisms directed against Ricardo on this score by the psychological school. The question is, did Ricardo adhere strictly to labor as the sole origin of enterpreneur's expense, or, per contra, did he not anticipate and point the way to Mill's definitive analysis of marginal costs into wages, interest and profit? Did he succeed any better than his predecessors in analysing costs?

If Ricardo's answer is not entirely clear, the fault lies, it would seem, in his inability to foresee the extraordinary growth and revolutionizing effects of capital on social productivity,-a fault which influenced not only his theory of costs but his theory of wages as well. It must be recalled, however, that the leading industries of England in his day, e. g., agriculture, wool, cutlery, were still operated mainly with hand tools; mechanical methods had been applied extensively only in cotton, as yet a minor industry; and steam transport was in its infancy. If Ricardo reasoned correctly on the data before him, it is no great fault to have missed the significance of future developments. The influences making for a principle of increasing returns in industry were hidden from his generation.

But if allowance be made for this fault, if fault it may be called, an affirmative answer to the queries raised above is clearly indicated in his analysis. Sections four and five (Chapter 1) introduce considerations concerning the element of "time" which are not to be found in the discussions of Ricardo's predecessors. Thus he says: "It is hardly necessary to say, that commodities which have the same quantity of labor bestowed on their production will differ in their exchangeable value if they cannot be brought to market in the same time........In both cases the superior price of one commodity" (that made with the help of machinery as compared with that produced with labor alone) "is owing to the greater length of time which must elapse before it can be brought to market........The difference in value arises from the profits being accumulated as capital, and is only a just compensation for the time that the profits were withheld."× It is not suggested that Ricardo propounded a satisfactory theory either of interest or profits, nor that he properly differentiated the two. The contention is simply that he for the first time injected an element of time-cost into the analysis of relative exchange values.

The principle thus clearly enunciated he applied, and illustrated, in two directions. In section four a comparison is instituted between the relative values of goods made with machinery and goods made with labor alone; in section five the comparison lies between goods made with durable capital and goods made with capital that wears out quickly. In both cases it is the introduction of diverse periods of production which modifies the principle that values vary as the amount of labor. The

× pp. 30-31.

effect of the time factor is twofold: first, it enhances the cost of goods produced in a longer period; secondly, any decrease in the rate of "remuneration for time" will diminish the cost and therefore the relative value of good produced in a longer period, as compared with goods produced in a shorter period.

The first of these effects is illustrated by Ricardo thus:× Suppose a one year process in the production of (say) cotston goods, employing labor alone; 40 men at £ 50 a year yields a wage bill of £ 2000, which with profits at 10%, enables the producer to sell at £ 2200. Now suppose another commodity, (say) wool, requires a two years process of production, the investment being spread over a longer time; the same amount of labor is used, 20 men per year at £ 50, so that the wage bill is £ 2000 as before. The calculation of costs in the latter case is modified thus:

£ 1000 advanced to labor the first year, plus compound interest at 10% for two years=£ 1210
plus £ 1000 advanced the 2nd year at 10%=1100 = £ 2310

Or, to vary the illustration in accord with Ricard's conception of the effect of durable capital in lengthening the period,± suppose the wool producer employs 20 men the first year to manufacture machines and in the second year he uses the machines plus 20 men; the total product remaining the same the calculation is unchanged; the cost of the product is £ 2310.

"Here then are capitalists employing precisely the same quantity of labor annually on the production of their commodities, and yet the goods they produce differ in value on account of the different quantities of fixed capital, or accumulated labor, employed by each respectively." That is to say

× p 30
± Compare Ricardo's illustration at pp 27–28.

the exchange ratio is 2310 : 2200 :: 105 : 100. Though the wage bill is the same, the value of wool to cotton is as 105 to 100.

A clearer case of the breakdown of the labor theory could not be conceived. It is surely erroneous to call this result "negligible."

But now, according to Ricard's reasoning, the natural tendendency of profits is to fall.× What then will be the effect of a fall of interest on the relative values of wool and cotton? Ricardo answers: the value of wool will fall relatively to cotton. "All commodities which are produced by very valuable machinery, or in very valuable buildings, or which requires a greater length of time before they can be brought to market, would fall in value, while all those which were chiefly produced by labor, or which would be speedily brought to market would rise in relative value."±

In order to reveal concretely the effect of this principle we have supplemented and elaborated Ricardo's illustration, thus:

(2) At 9% the respective costs (and value) will be: for wool,
£ 1000 at 9% compounded for two years= £ 1188.10
plus £ 1000 at 9%............................= 1090.00=£ 2278.10;
for cotton, £ 2000 at 9%.....................= £ 2180.
2278.10 : 2180 :: 1.045 : 1.000

(3) At 8% the respective costs and value ratio will be
2246.40 : 2160 :: 1.04 : 1.00

× p. 98. Note that this reasoning applies to interest rather than
± p. 29 profit, if we substitute modern terminology.

In brief, a fall in the interest rate from 10 % to 8 % has resulted in a progressive decline in relative value of the machine-made product $\frac{1.05}{1.00}, \frac{1.045}{1.000}, \frac{1.04}{1.00}$ Expressed in terms of money, the effects of the introduction of machinery in the "roundabout" process are two-fold: (1) wool, requiring an investment of two years, is raised in value relatively to cotton as ¥ 1 sen 5 to ¥ 1 per unit; (2) a fall in the rate of interest of 2 % induces a decline in the relative value of wool from ¥ 1 sen 5 to ¥ 1 sen 4 per unit, while cotton remains stationary at ¥ 1.

Here then is the evidence that Ricardo deliberately framed a modification of his labor-cost theory of value. Its logical significance lies in the fact that compensation for time must be added to labor costs in all cases where capital investment extends over a considerable period. That this is not a far-fetched interpretation is conclusively shown by the note which Ricardo inserted in his third edition at the end of section six, to wit: "Mr. Malthus appears to think that it is a part of my doctrine that the cost aud value of a thing should be the same–it is, if he means by cost, 'cost of production,' including profits." In short, value is determined by cost of production; cost of production includes interest of capital as well as wages of labor. The final proof that this was Ricardo's essential position is exhibited in the fact that he uniformly insists in the next chapter, on Rent, that both capital and labor must be compensated at the margin; "Rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labor.×

It remained for his successors, especially J. S. Mill, to differentiate "profit" and "interest,"

× p 48.

in order to arrive at the modern doctrine of marginal costs (assuming that "rent" does not enter into costs at the margin). To this consummation Ricardo assuredly contributed.

It is, no doubt, a grave defect of Ricardo's exposition that he continued, in spite of these considerations, to speak of costs as determined by labor alone, in subsequent portions of his book. But that this was a verbal mistake and not an error of judgment is easily explained by two facts, viz: he regarded capital as merely so much "accumulated labor" -(in our opinion an error); and secondly, owing to the predominance of hand-labor in his day he regarded capital as comparatively an unimportant factor in costs. nence he could say: "in the subsequent part of this work............ I shall consider all the great variations which take place in the relative values of commodities to be produced by the greater or less quantity of labor which may be required from time to time to produce them." (p. 30) This policy, from the standpoint of our present knowledge, was a defect; and though it may obscure it does not discredit the contention that Ricardo originated the cost analysis which Mill later developed and standardized.

Keio University, Tokyo.

R. C. Whitnack.