

WSWS Editorial Board member Nick Beams replies to a reader's question on the labour theory of value

29 April 2000

Dear Mr. Beams:

I have a question I would like you to answer about the labour theory of value:

For what reasons would you consider Marx to be a pupil of Ricardo, and to what extent would you believe this to be true?

I look forward to reading your reply.

Thanking you in anticipation,

VJS

April 28, 2000

Dear VJS,

A complete answer to your question on the relationship between Marx and Ricardo would require a reply of book-length proportions. In the time and space available here I'll concentrate on the main points.

Marx regarded Ricardo and before him Adam Smith as the foremost representatives of what he termed classical political economy. The classical school, which culminated in Ricardo, developed its theories under conditions when the rising bourgeoisie was still fighting the representatives of the landowning classes and mercantilist interests in order to clear the way for capitalist production, and when it was not yet confronted by the threat to its order from the working class. Under these conditions classical political economy was able to make scientific advances. After Ricardo, however, the working class begins to come onto the scene as a threat to the bourgeois order, and bourgeois political economy becomes ever more an ideological defence of capitalism.

One of the great advances of the classical school was the labour theory of value, which found its foremost advocate in the person of Ricardo. Adam Smith had established that the proportions in which commodities exchanged was the labour embodied in them. However, when he came to examine capitalist society he stumbled over the question of profit. If commodities exchanged at their value and if labour received its full value, then how did profit arise? Smith concluded that while the labour theory of value may apply in a simple society, it did not apply in the capitalist society under study. Consequently he resorted to an adding up theory of value: the value of a commodity is determined by the value of its components—labour, capital, land. Of course such a theory explains nothing for it says that the value of a commodity is determined by the value of other commodities—leaving open the question of value itself.

Ricardo took issue with Smith's abandonment of the labour theory of value. He insisted that it was applicable to capitalist society and that the value of any commodity was the labour time embodied in it. On the basis of the labour theory of value he sought to explain the

distribution of production among the three major classes: labourers, capitalists and landowners. He showed that the new value added by labour in the production process was distributed between the capitalists and labourers in the form of wages and profit, and that the value of the commodity remained the same no matter what the proportion of these two parts.

But Ricardo was not able to explain how the law of value governed the exchange between capital and labour, that is, how it was possible for surplus value to arise on the basis of the exchange of equivalents.

In his preface to Volume II of *Capital* Engels explains the state of economic science prior to the emergence of Marx:

“The existence of that part of the value of products which we now call surplus-value had been ascertained long before Marx. It had also been stated with more or less precision that it consisted of, namely, the product of the labour for which its appropriator had not given any equivalent. But one did not get any further. Some—the classical bourgeois economists—investigated at most the proportion in which the product of labour was divided between the labourer and the owner of the means of production. Others—the Socialists—found that this division was unjust and looked for utopian means of abolishing this injustice. They all remained prisoners of the economic categories as they had come down to them.”

Engels goes on to make the point that Marx had to undertake a critique of Ricardo's theory of value. He demonstrated that the labourer did not sell his labour to capital but rather his labour power, or capacity to labour. The value of labour power was determined by the amount of labour required to reproduce it. But the new value, which was created by the consumption of labour power in the production process, was entirely different and this difference was the source of surplus value.

Having discovered the origin of surplus value Marx was able to resolve one of the major problems upon which the Ricardian school had stumbled. If labour was the source of value and if commodities exchanged at their value, then how was it that the rate of profit tended to equalise across all branches of industry? According to the labour theory of value as advanced by Ricardo, an industry in which there was a higher proportion of labour should enjoy a higher profit rate. But this result contradicted the fact that profit rates on the same outlay of capital tended to equalise. Marx showed that while each section of capital contributed to the mass of surplus value according to the amount of labour it directly exploited, it shared in that pool of surplus value according to its proportion of the total capital. In other words, Marx made clear the distinction between surplus value, extracted from labour, and profit, the form of surplus value appropriated by each

section of capital.

Further Marx was able to disclose the origin of the tendency of the rate of profit to fall. All political economists had noted this tendency. Smith believed that it was the result of competition—a position rejected by Ricardo. He maintained that the tendency of the rate of profit to fall arose from the fact that profits fell as the value of wages rose. The value of wages was determined by the value of the commodities necessary to sustain the labourer, a large proportion of which comprised agricultural products. As capitalist production developed, more land had to be called into production. To the extent that the fertility of this land declined—the more productive land having been exploited first—the value of agricultural products would tend to rise, the value of wages would increase and accordingly the rate of profit would tend to fall. In other words, the tendency of the rate of profit to fall was a result of the decreasing productivity of labour in agricultural production.

As Marx put it, Ricardo's explanation passed from the field of political economy to chemistry. He showed, contrary to Ricardo, that the tendency of the rate of profit to fall arose not from the decreasing productivity of labour but rather from its increase.

Labour is the sole source of surplus value. But the rate of profit is calculated not on the basis of the capital outlaid in the purchase of labour power (variable capital) but on the whole of capital deployed in the production process, that is on the capital expended in the purchase of constant capital (raw materials and machinery) as well as variable capital. As the productivity of labour increased so the same amount of labour power set in motion a larger mass of constant capital (raw materials and machinery). Because constant capital merely transferred its value to the final commodity and did not create surplus value, there was an inherent tendency for the rate of profit (calculated as the ratio of surplus value to the total capital used in the production process) to decline.

It would be wrong to conclude from the foregoing points that Marx simply took over the labour theory of value from Ricardo, making some amendments and improvements. He undertook, as the subtitle to *Capital* implies, a fundamental “critique of political economy.”

The basis of this critique is referred to in *Capital*. Summing up his relationship to the classical school Marx writes:

“Political Economy has indeed analysed, however incompletely, value and its magnitude, and has discovered what lies beneath these forms. But it has never once asked the question why labour is represented by the value of its product and labour-time by the magnitude of that value” (Marx, *Capital*, Volume I, pp. 84-85).

What Marx is pointing to is the following: why does the product of labour take the form of a commodity? Every society has the task of allocating social labour in order to maintain it. How does this process take place in capitalist society in which individual producers carry out production? These individual producers, however, are not producing for their own subsistence, their production is social. How then is the allocation of labour regulated under conditions where there is no overall social control? It is regulated by, and can only be regulated by, the relationship of commodities, things, the products of labour.

Only under very specific conditions does the product of labour take the form of a commodity which is exchanged in the market. In a primitive society, for example, there is a division of labour and different products of labour, but these products do not take the form of commodities. The members of the tribe do not share in the products of labour according to labour time they have contributed.

Socialist society, like all other societies which have preceded it, will

have the task of allocating social labour in order to maintain and advance society. But this will be undertaken consciously through the development of a plan, and the further amendment and modification of that plan.

But in bourgeois society, in which there is no conscious control of social production, the allocation and re-allocation of social labour can only be carried out by the value relations between the products of labour, that is, between things.

Continuing his critique of the classical school, Marx explains that its formulae have stamped upon them “in unmistakable letters that they belong to a state of society, in which the process of production has mastery over man, instead of being controlled by him.” However “such formulae appear to the bourgeois intellect to be as much a self-evident necessity imposed by Nature as productive labour itself” (Marx, *Capital*, Volume I, p. 85).

And in a footnote, Marx writes: “It is one of the chief failings of classical political economy that it has never succeeded, by means of its analysis of commodities, and, in particular, of their value, in discovering that form under which value becomes exchange-value. Even Adam Smith and Ricardo, the best representatives of the school, treat the form of value as a thing of no importance, as having no connexion with the inherent nature of commodities.”

Marx goes on to say that the reason does not lie simply in the fact that they were absorbed in the analysis of the quantity of value but went deeper. “The value form of the product of labour is not only the most abstract but is also the most universal form taken by the product in bourgeois production, and stamps that production as a particular species of social production, and thereby gives it its special historical character.”

In short, Marx's essential critique of Ricardo's labour theory of value is that it begins by treating the value form of the product of labour not as a characteristic of a definite historically-developed social form of production, capitalism, but as deriving from Nature and therefore as not warranting any further investigation. It is this failing, he insists, which leads to the errors of the classical school when it comes to the analysis of the further development of the value form in money, capital, etc.

The scientific developments made by Marx would not have been possible without the achievements of the classical school. But by the same token Marx cannot be considered to be a pupil of Ricardo. Whereas Ricardo accepted the categories of political economy, Marx subjected those categories to a fundamental critique and in so doing disclosed the contradictions in the bourgeois mode of production from which they were derived.

I hope this reply, with all its limitations, is of some assistance to you in exploring this subject.

Yours sincerely,
Nick Beams



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