A History of Economic Thought

by

Isaac Ilych Rubin

Translated and edited by Donald Filtzer

Afterword

by

Catherine Colliot-Thélène

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CHAPTER EIGHTEEN

Industrial Capitalism in England During the Mid-18th Century

In France, mercantilism, which reflected the interests of commercial capital, had provoked the opposition of the Physiocrats, who were defenders of the rural bourgeoisie This opposition came to nothing in practice, however, as the Physiocrats' programme was not carried out The only forces that could crush mercantilism were those of the urban industrial bourgeoisie. It fell to the Classical school, founded by Adam Smith, to complete the conquest of mercantilism, in practice as well as in theory. If the Physiocrats dreamt of rapid successes for productive *agricultural capital*, the Classical school struggled against mercantilism in the name of the free development of *industrial capitalism* To best understand Smith's doctrine we must first know something about the state of industrial capitalism in England round about the middle of the 18th century, on the eve of the industrial revolution.

The 18th century was a transitional period in the history of English industry, and was characterized by the coexistence of different forms of industrial organization: first there were *independent handicrafts*, which still existed as a relic of the past; second, there was a widely-diffused system of cottage, or *domestic* large-scale industry; and third, there had by now appeared large, centralized capitalist enterprises, or *manufactories*

At the beginning of the 18th century there were still large numbers of independent *craftsmen* in England Defoe has left an interesting portrait of the life of the independent master cloth-makers who lived near Halifax: 'at almost every House there was a *Tenter*, and almost on every Tenter a Piece of *Cloth* or *Shalloon* . ' ' every Clothier must keep a Horse, perhaps two, to fetch and carry for the use of his Manufacture so every Manufacturer generally keeps a Cow or two, or more, for his family .. ' ' a House [is] full of lusty fellows, some at Dye-fat, some dressing the Cloths, some in the Loom ' ' . Women and Children are always busy Carding, Spinning, &c

so that no Hands being unemploy'd, all can gain their Bread, even from the youngest to the antient; hardly any thing above four Years old, but its Hands are sufficient to it self '[1] The craftsmen preserved their independence thanks to the fact that it was they themselves who were carting their commodities to nearby markets for sale

However, once at this market the craftsmen usually had to sell their commodities not directly to the consumer, but to a *middleman* The cloth makers who lived near Leeds brought their cloth into Leeds twice a week, where trade was first carried out on a bridge and later on in two covered markets Each cloth maker had his own stall to which he brought his cloth At six or seven in the morning, at the peal of the bells, the merchants and middlemen would appear and start bargaining with the cloth makers, concluding all their business in about an hour By around nine o'clock the benches had been cleared and the market was deserted Under this set-up the masters, though still maintaining their independence, were already selling their commodities to the merchant, rather than to the consumer

This need to sell to the merchants was caused in most cases by the *specialization* of the crafts, by the fact that each was concentrated in a specific region, and by the *expansion of the market* If the cloth makers living around Leeds, for example, specialized in the manufacture of a particular type of cloth, its consumption was obviously not limited to the Leeds area alone; it would be exported to other English towns or even abroad As the master could not deliver his cloth himself to such far-flung markets, he would sell it to merchants whose loaded caravans used to take the goods to the various fairs and trading towns of England

Also, the *remoteness of raw materials markets*, for example, the impossibility of going to the large trading centres to buy wool, led to the same result: the raw materials were purchased by merchants, who distributed them to the masters for working up Thus, in Lancashire, weavers used to supply themselves with warps and wefts, work them up, and transport the finished products to market Gradually, however, it became more difficult to acquire thread, at which point the Manchester merchants began to distribute warps and cotton to the weavers, and the weavers became dependent upon them

In other situations the dependence of the craftsmen upon the merchants was brought about by the need to buy new *means of production* Advances in weaving technology demanded that each master have a greater number of looms Lacking the means for this, it was the buyers up who ordered the additional looms and passed them out to the masters.

Thus the changing conditions of producing and selling commodities (the specialization of crafts, the wider market over which these commodities were sold, the remoteness of markets for the purchase of raw materials, the need to expand the means of production) caused *the master craftsman to be gradually subordinated to the buyer up*. In Leeds the master still brought his own commodities to the merchant in town. Gradually, however, the merchant began to come to the master for them. The London merchants themselves travelled to the masters, bought up their commodities, and paid them in ready cash. In Birmingham the buyers up went around the master locksmiths on pack-horses buying up their commodities. Cut off from the market, the craftsman became dependent on merchant capital.

So long as the craftsman could sell his commodities to a number of merchants he could still retain a degree of independence. But little by little he would become increasingly dependent upon one merchant in particular, who would buy up his entire output, place advance orders for his wares, extend him advances, and, finally, begin to supply him with raw materials (and, less frequently, with implements of production). From this moment on, the product belonged no longer to the craftsman (who was now receiving simply a recompense for his labours), but to the buyer up. He, in his turn, became a putter out, with many small-scale master craftsmen—craftsmen who had become dependent cottage labourers. Independent handicrafts gave way to the *cottage, or domestic system of large-scale industry*, the spread of which signified the penetration of *commercial capital into industry*, and paved the way for the complete reorganization of industry on a capitalist basis.

During the 17th and 18th centuries, concurrently with the spread of the domestic, or decentralized system of large-scale industry, *manufactories* made their appearance. These were more or less large-scale, centralized capitalist enterprises. The manufactory differed from the domestic system in that the workers worked not alone at home, but on a single premises, which had been set up by the entrepreneur. It was distinguished from the later factory by the predominance of manual labour and the absence of any application of machinery.

The manufactories came about sometimes *independently* of the domestic system and sometimes directly *out of it*. They arose independently wherever it was a case of a new, previously unknown branch of production being implanted in a given country: either foreign entrepreneurs, together with their hired personnel, or individual masters, who would subsequently join together into a single 'manufactory', would be sent for to come from abroad It was in this manner that many manufactories arose in France—with the active participation of the state In other cases they grew directly out of the domestic system: the buyer up, who had previously put out raw materials for individual cottage workers to work up at home, would gather these workers together onto one premises where they would have to work under his direct supervision The dependent cottage labourer was being converted into a hired worker (a proletarian) receiving a wage. The buyer up-putter out was becoming the direct organizer of production, an industrial capitalist If the spread of the domestic system was a sign of commercial capital's penetration into industry, the setting up of manufactories signified the completion of this process and the coming into being of *industrial capitalism* in the strict sense of the word.

By bringing the workers together under one roof the entrepreneur rid himself of the unnecessary expense involved in distributing the materials to the individual cottage labourers and in transferring the output of some workers to others for further processing; at the same time he gained better control over the raw materials, since under the domestic system the putters out were always complaining that the cottage workers were keeping back part of the raw materials for themselves On the other hand, the domestic system did relieve the entrepreneur-buyer up of all fixed-capital costs (buildings, implements of production), while it made it possible for the cottage workers to work at home and combine their activity with subsidiary occupations (agriculture, growing fruit and vegetables, etc). It was because of these advantages that the domestic system proved able to compete with the manufactories, all the more so since the latter held no special advantages in terms of technology The manufactories were, therefore, unable to oust and replace the domestic system on any significant scale—this was a task that only the factories, with their extensive application of machinery after the industrial revolution of the end of the 18th century, had it within their power to accomplish. Independent handicrafts and the domestic system existed side by side with the newly established manufactories which did not so much replace them as wrest from them individual processes of production which, because of the complexity of their production process, the high quality of the raw materials involved and so on, demanded special supervision over the workers. Often only the very first and last production processes would be carried out within the manufactory, with intermediate processes being done at home by cottage labourers Hence we very often see the *combination of the manufactory with the domestic system*: a few dozen workers (in rare cases a few hundred) would be labouring in the manufactory, while its owner would at the same time be distributing a substantial amount of work for cottage workers to work up at home.

Although the manufactory did not become as widespread during the 17th and 18th centuries as did the domestic system or the 19th century factory, it nevertheless played an important role in the history of economic development. It signified the appearance of *industrial capitalism*, with its own characteristic *social and technological* features: 1) the division of society into a class of *industrial capitalists* and a class of *hired labourers*; and 2) the domination of *large-scale production* based on the *division of labour* (although without the application of machinery).

In the age that preceded the appearance of the manufactories the money capitalist (the usurer and financier), the merchant capitalist (the merchant), and the buyer up-putter out were familiar figures. The latter represented a hybrid between the merchant and the entrepreneur. His primary line of business was still trade, and he undertook the organization of cottage industry only insofar as this was necessary for the more successful vending of commodities. His income was equally hybrid in character, being made up partly of commercial profit ('profit upon alienation') earned by selling commodities where there was a favourable market, and partly from the exploitation of the cottage worker-producer. With the appearance of the manufactories the *industrial capitalist* in the narrow sense of the word gradually emerged with his own characteristic form of income—*industrial profit*. The owner of the manufactory saw his main job as organizing the process of production. He gave up his commercial role, usually selling his commodities to merchants, who received the profit from trade.

At the same time, it was in the manufactory that the process of forming an *industrial proletariat* was being completed. Of course, the socio-economic processes that created the preconditions for the proletariat's appearance had been going on long before the spread of manufactories, proceeding with especial intensity in the 17th and 18th centuries (the creation of a landless peasantry, the impoverishment of the craftsmen, the exclusiveness of the guilds and the difficulty of becoming a master, the separation of the journeymen from the masters). The industrial proletarians had their forerunners in the *journeymen* and *cottage labourers*. The journeymen, however, never gave up hope of acquiring simple instruments and becoming master craftsmen; the cottage labourers, recruited from the semi-proletarianized craftsmen and peasants, preserved an illusory independence thanks to the fact that they worked at home, had their own implements of labour, and drew subsidiary earnings from agriculture. The journeymen and cottage workers represented an intermediary type, between the independent producer (the craftsman and peasant) and the wage labourer. The workers in the manufactories were proletarians in the exact sense of the term: the large-scale nature of production left most of them with no hope of joining the ranks of the entrepreneurs. Deprived of all implements of production, they received their income strictly from the sale of their labour power, i.e., quite precisely, a *wage*. And although there were still innumerable threads tying the manufactory workers to craft production and cottage industry (they had often been craftsmen and cottage labourers before, had hopes of going back to their previous illusory independence, sometimes drew an auxiliary income from a plot of land or a vegetable patch, and in a few cases even retained their own simple instruments which they carried with them to work in the enterprise), their work in the manufactory put them in the social position of hired proletarians and gave their income the social character of a wage.

Moving from industrial capitalism's social characteristics to its technological ones, one can say that in terms of its *implements of labour* the manufactory still preserved a continuity with handicrafts, while in terms of its *organization of labour* it paved the way for the factory. The extensive application of machinery, which was to ensure the factory production of the 19th century its rapid development, was still unknown in the manufactory. The basic form of the capitalist organization of labour had, however, already been created: large-scale production based upon the *division of labour*. Alongside the previously existing *social* division of labour between individual enterprises appeared a manufacturing, or *technical* division of labour within the enterprise itself.

The break down of the production process into separate stages had also existed within guild handicrafts. There, however, it occurred simply as a social division of labour between individual craft enterprises: the carders worked up the wool, after which they passed it onto the master spinner who prepared the yarn; the weaver wove the material, the dyer dyed it, and so on. Within each workshop the division of labour was practically non-existant. The transition from handicrafts to the manufactory was a twofold process: in the first place previously independent crafts or processes of production were grouped together in a single manufactory (for example, a manufactory making cloth would join together carders, spinners, etc.); in the second place, each individual process of production (e g , carding or spinning) would be further broken down into a series of even more detailed operations. By *breaking down the process of production* and then *combining* them according to a single plan, the manufactory acquired the features of a complex, differentiated organism, in which individual jobs and workers formed a necessary complement to one another

Hand in hand with this break down of the production process went the *specialization of the workers*. A specific worker was assigned to each detailed operation, to be occupied with this and this alone. The master craftsman possessing more or less universal technical knowledge (within his own profession, of course) was replaced by a worker concerned with only a detail or *part* of the process, and who, by constantly repeating one and the same simple, monotonous operation became capable of performing it with great perfection, speed, and dexterity. Although the majority of operations was still performed by workers who were trained craftsmen, the more simple jobs were already beginning to be carried out by workers who were untrained—a group completely unknown in the period of the guilds On the other hand, the need to co-ordinate the joint work of many individuals within a single enterprise led to a division within the leading organizing personnel: besides the entrepreneur, who was the ultimate organizer of the enterprise, there appeared foremen, overseers, checkers, etc. With the manufactory, workers began to be broken down into horizontal groups: although trained craftsmen or *skilled* workers still formed the basic nucleus, they now had *untrained* workers underneath them and *managerial personnel* above them.

Finally, parallel with this specialization of the workers came the specialization, or *differentiation of the implements of labour*. A particular tool would be modified depending on the nature of the operation it was meant to perform Hence appeared different types of hammers, cutting tools, etc , each of which was adapted as best as possible to a given detailed operation. Tools, however, continued to be manually operated, with their action dependent on the strength and dexterity of the hands that guided them They were little more than a supplement to the living workers, who still occupied the primary place within the production process The manufactory relied on *manual technology*, the *high level of productivity* of which was owing to the *break down* of the process of production, the specialization of the *workers*, and the differentiation of the *implements of labour*.

Thus in 18th century England new, capitalist relations were developing within industry alongside the previously-existing guild handicrafts: the *domestic system* had become widespread; less so the *manufactory*. In the course of its growth capitalist industry came up against obstacles created by outmoded yet extant legislation: in particular the *guild system*, which in its day had been set up to protect the interests of the crafts, and the *policy of mercantilism*.

The guild regulations extended the right to engage independently in industry only to those persons who had taken a seven-year course of study and had become members of a guild (this was Elizabeth I's law on apprenticeship, issued in 1562 and still in force in the 18th century). These same regulations forbade the sale of commodities to any buyer up who was not in a guild. The prohibition on taking in more than a certain number of journeymen and apprentices held back the construction of manufactories. Strict compliance with guild regulations would have made it impossible for the domestic system and the manufactories to spread. But the demands of economic development proved stronger than outdated legislation. The guilds themselves were gradually compelled to allow work to be done for buyers up, since craftsmen were now producing for far away markets and could not have managed without their assistance. Already in 16th century Strasbourg, for example, weavers unable to find a market for their goods were beseeching merchants in every way possible to buy up their wares. The guilds were more stubborn in their struggle against the manufactories, but they still could not halt their development. To escape the guild restrictions the putters out and entrepreneurs transferred their activities to *rural areas*, or to new towns which were not subject to the guild regime. Yet even in towns where the guild system was in force, regulations were completely *by-passed* in the interests of the capitalist-entrepreneurs—*new branches of production*, non-existent when the guild laws had been issued (e.g., cotton textiles), were exempted from their application. The law providing for Justices of the Peace to set compulsory wage levels also gradually fell into disuse: as late as the mid-18th century, Parliament reaffirmed the legal force of this law in the interests of the small-scale master cloth-makers, but was soon compelled to repeal it under pressure from the capitalists engaged in cloth making.

Mercantilist policy, which in its day had served to implant the capitalist economy, over the course of time turned into a brake on its further development. The zealous patronage afforded to favoured branches of native industry harmed the growth of industrial capitalism *in other sectors*. For many years, for instance, the English government, acting in the interests of the cloth industry, had forbidden, or put all kinds of constraints upon the development of the cotton textile industry that was later to assure England her dominant position in the world market. *The monopolies of the privileged trading companies* were hampering the initiative of individual private traders and industrialists. The system of rigid *protectionism*, which it is true still found support from some industrialists, was already becoming superfluous and even harmful to the most important sectors of English industry—textiles and metallurgy—which were in no way threatened by foreign competition and had everything to gain from doing away with the obstacles standing between them and the world market.

To ensure the powerful development of industrial capitalism and to turn England into the world's factory required that trade and industry be freed from the restrictions of the guilds and mercantilism. *The ideas of free trade* that North had expounded and Hume had developed (as did the Physiocrats in France) had gained wide currency by the second half of the 18th century. Adam Smith owed his book's brilliant success above all to its eloquent sermons on behalf of the freedom of trade and industry.

Adam Smith can be called the *economist of the manufactory period* of capitalist economy. Only an economist who had observed the growth of industrial capitalism through large-scale manufactory enterprises could present a general picture of the capitalist economy and analyze its separate elements in a way so markedly different from the Physiocrats. Smith for the most part portrays the capitalist economy as a manufactory with a complex division of labour: hence his theory of *the division of labour*. Smith opposes the Physiocrats' false ideas about the class division of society, by consistently and correctly *dividing society into the classes of capitalists, wage labourers, and landowners*. He clearly differentiates the *forms of income* appropriate to each of these classes and isolates the category of *industrial profit*—an enormous advance over the Physiocrats' naive notions of profit. Once profit is identified as a specific category one does away both with the identification of rent with surplus value and with the theory that the origin of surplus value lies in the physical productivity of the land. Smith seeks the source of value and surplus value in *labour*—not simply agricultural labour, but industrial labour as well. Despite falling into some fatal errors in formulating this theory of value and in attempting to deduce from it the phenomena of distribution, Smith is nonetheless the first to make the *labour theory of value* the touchstone of his entire economic theory. Smith's theory of capital marks a tremendous step forward. The technical features of industrial capitalism characteristic of the manufactory period find their theoretical reflection in Smith's doctrine on the division of labour; its social characteristics are reflected in his theory of social classes and forms of income (especially his theory of industrial profit), in his labour theory of value, and in his theory of capital.

1 Daniel Defoe, *A Tour Thro' the Whole Island of Great Britain*, Vol. II (London, Peter Davies, 1928), pp. 601-02. A tenter is a rack used for stretching cloth; a shalloon is a thin piece of cloth used for coat linings. Although Rubin presents this in his Russian text as one continuous passage, he has in fact strung together individual sentences taken from separate paragraphs in Defoe's narrative. We have broken up the sentences as they appear in Defoe's original.

CHAPTER NINETEEN

Adam Smith, the Man

On the surface Smith's life is very straightforward. He was born in 1723 into the family of a customs official, in the small Scottish town of Kirkcaldy Displaying exceptional abilities at an early age, he devoted himself primarily—and assiduously—to the study of philosophy Beginning in 1751 Smith spent 13 years as a professor at Glasgow University, where he taught a highly successful course in *'moral philosophy'* Following the spirit of the 18th-century Encyclopedists, the course was not confined simply to ethics, but covered theology, ethics, natural right, and, finally, a section which would now be most accurately called economic policy Smith's economic theory grew out of the last of these At that time Glasgow University had no separate chair of political economy, which is not surprising since political economy had not yet formed into an independent science: mercantilist writings were largely practical in character, while for those thinkers disposed towards theory, political economy still remained a subordinate part of philosophy and natural right. At first economic questions had this same subordinate status in Smith's thinking He devoted his main efforts to his work on ethics, and in 1759 he published *The Theory of Moral Sentiments*, which earned him great renown

When Smith incorporated economic problems into his course on moral philosophy he was possibly following the example of his predecessor in the department, the famous philosopher, Hutchison However, whereas Hutchison used to deal with economic questions only in passing, Smith gradually made them the focus of his scientific activity Smith moved from philosophy to political economy, just as Quesnay had followed the same path from philosophy and medicine. In neither case can this transition be seen as purely accidental: if Quesnay's evolution could be explained by his growing concern with the economic problems of mid-18th century France, what influenced Smith was firstly, the great *changes* taking place at the time *in English economic life*, and secondly, the influence of his elder contemporaries, Hume and Quesnay

England was in transition from the age of commercial capital to that of *industrial capitalism*, and the changes in economic life were so considerable that they could not fail to attract the attention and interest of anyone living at the time Nor should it be thought that these changes went unfelt in far away Scotland. The implantation of industrial capitalism was proceeding there with especial success and rapidity During the first half of the 18th century the number of large-scale manufactories was actually greater in Scotland than in England; *joint stock companies* had been set up in the cloth and linen industries In the Scottish mountains the *metallurgical* industry had made great headway: it was there, in the celebrated factories of Corran that the famous Watt, the future inventor of the steam engine, built his first improved machine in 1769—the pump. The years when Smith lived and taught in Glasgow saw an unusually rapid development of trade and industry in the city—large-scale manufactories were established, banks were set up, and port and shipping facilities were improved

Scotland's rapid economic development in the 18th century explains why it was that commercial-industrial and intellectual circles in Glasgow displayed what for their day was a lively interest in economic questions. A political-economy club had already been formed in Glasgow in the 1740's, which, given the date it was founded, would obviously make it the first in the world Smith was an habitué of this club and met there weekly with his friends. Both the conversations inside, and local events going on outside the club's walls gave economists food for thought Watt, whom we have already mentioned, had his workshop in Glasgow, where he carried out experiments on a new type of machine When the local guild corporation forbade him in 1757 from conducting any further experiments Smith earnestly took up his case, and Watt was soon allowed to continue his work in the University workshop

Besides his observations on what was actually going on around him, Smith's thinking was also nurtured by literary influences Hume (a close friend of Smith) had published his economic works at the beginning of the 1750's. A few years later appeared Quesnay's first articles and his *Tableau Economique* Both Hume and the Physiocrats (whom Smith got to know personally later on in Paris) exercised a strong influence on him

Smith later recalled his thirteen years as a professor as the most useful and happiest period of his life He closed these years as the celebrated author of *The Theory of Moral Sentiments*, and with a plan for a general economic work In 1764 he gave up his professorship at his own request in order to travel to France as the preceptor of a young lord. In all, Smith spent more than two and a half years in France, including nine months in Paris where he met with eminent philosophers and teachers including Quesnay and his followers. In Paris Smith was already known as a philosopher but had still not proved himself as an economist; in the words of the Physiocrat, Dupont, 'he has still not shown the stuff that he is made of'.

At the time of his Paris visit Smith was already telling his friends that he was contemplating a substantial work on economic questions. Upon his return to England at the end of 1766 he decided to devote all his efforts to carrying out this plan. Rather than returning to university life, he settled in his native Kirkcaldy, that small town where for seven years he led a secluded existence working on his opus. None of his friends' efforts to induce him to give up his isolation met with any success. 'I want to know', wrote Hume to him, 'what you have been doing, and propose to exact a rigorous account of the method by which you have employed yourself during your retreat. I am positive you are in the wrong in many of your speculations, especially where you have the misfortune to differ from me.'[1] Hume again writes, a few years later, 'I shall not take any excuse from your state of health, which I suppose only a subterfuge invented by indolence and love of solitude. Indeed, my dear Smith, if you continue to hearken to complaints of this nature, you will cut yourself out entirely from human society, to the great loss of both parties.'[2]

The years in isolation had not been in vain. In 1776 Smith's great work, *An Inquiry into the Nature and Causes of the Wealth of Nations* was presented to the world; it earned him universal acclaim and opened up *a new era in the history of economic thought*. From this moment onwards, political economy ceased to be either an aggregation of separate discourses or an appendage of philosophy and natural right: it emerged as a systematically and coherently expounded independent theoretical science. Even before Smith the need had been felt for such a scientific synthesis. It was no accident that, just as they were about to pass from the scene both the economic schools that preceded Smith had, as it were, wished to present the world with a synthetic exposition of their knowledge and ideas: approximately 10 years prior to the appearance of Smith's work the world had received a general statement of the mercantilist position in James Steuart's *An Inquiry into the Principles of Political Oeconomy*, while Turgot had generalized the work of the Physiocrats in his *Réflexions sur la formation et la distribution des richesses*. Neither of these books, however, was capable of opening a new scientific age: the first because its underlying theoretical ideas were either not worked out or mistakenly presented, the second because the Physiocrats' horizon never looked beyond the sphere of agriculture It fell to Smith to give a theoretical formulation of the phenomena of rising industrial capitalism.

Smith's book owed its immense success on the one hand to its quality of *theoretical generalization*, and on the other to the eloquence with which it *propounded the ideas of free trade* The struggle for and against mercantilist policy was still being carried out at too topical a level to afford Smith the luxury of a purely theoretical investigation Of the five books of *The Wealth of Nations* only the first two are dedicated to theoretical questions while descriptive material and problems of economic policy predominate in the other three, with special consideration being given to the polemic against mercantilism Today these sections of Smith's work hold merely an historical interest; the first two books, on the other hand, were to form the basis for theoretical economy's future development.

Smith lived for a further fourteen years after the publication of *The Wealth of Nations*. The growing pressures of his work on the Board of Customs and the infirmities of old age left him little time and energy for scientific labours It is true that right up to his death he continued to entertain his life-long dream of rounding off his scientific-philosophical system by writing those parts that were still missing He gathered together materials for works on law and the history of literature, but not long before his death in 1790, he burned his manuscripts

1 Hume s letter to Smith of 20 August 1769 in *The Correspondence of Adam Smith*, edited by Ernest Campbell Mossner and Ian Simpson Ross (Oxford Oxford University Press 1977) p 155

2 Hume; letter to Smith of 28 January 1772. *ibid* p 160

CHAPTER TWENTY

Smith's Social Philosophy

Smith's economic system, like that of the Physiocrats, was intimately linked with his doctrine of *natural right* In 18th-century England, as in the France of the same period, the bourgeoisie, as we have seen, had still not managed to completely emancipate the capitalist economy from the bonds of antiquated legislation; it is therefore understandable that it sought to sanctify its class demands (which coincided in this period with the interests of overall national economic development) with the authority of an eternal, rational, 'natural' right. But it is noticeable that Smith's views on natural right depart significantly from those of Quesnay. The idea of natural right was central to Quesnay's system. In his view, any positive legislation contradicting natural right would bring ruin to the country and the degradation of its economy: *economic progress or regression* depends upon whether the dictates of *natural right* are carried out or violated.

Smith ascribed to legislation a more modest impact upon economic life. 'Mr. Quesnai', he wrote, 'seems to have imagined that [the political body] would thrive and prosper only under *a certain regimen, the exact regimen of perfect liberty* and perfect justice. He seems not to have considered that in the political body, the natural effort which every man is continually making to better his own condition is a principle of preservation capable of preventing and correcting, in many respects, the bad effects of a political oeconomy, in some degree, both partial and oppressive. Such a political oeconomy, though it no doubt retards more or less, is not always capable of stopping altogether the natural progress of a nation towards wealth and prosperity, and still less of making it go backwards.'[1] *Economic progress forces a way for itself*, whatever the retarding influence of poor legislation that violates the principles of natural right.

The explanation for this marked difference in the views of Quesnay and Smith lies in the *differing economic conditions* of France and England in the 18th century. In France, capitalist agriculture was not so much an actually-existing phenomenon as a Physiocratic slogan that had still to be put into practice. Given France's feudal survivals and absolute monarchy, the extensive development of capitalism was genuinely impossible without a fundamental social and political revolution and the implementation of the 'natural law' of bourgeois society This accounts for the extreme importance of natural right in Quesnay's system England in the 18th century found itself in a different situation Despite the continuing political domination of the landowning oligarchy, the basic social preconditions for the development of capitalism were already present The capitalist economy was developing rapidly, either breaking or bypassing the separate guild or mercantilist restrictions which, despite slowing down the former's growth, could not halt it—hence Smith's view that economic progress is continuous, even where legislation is bad and contradicts the principles of natural right

Thus for Smith *economic forces prove stronger* than legal and political obstacles. There follows from this an important methodological principal: it is possible to study the action of economic forces independently of the legal and political environment within which this activity takes place Smith, in this way, cautiously cuts the umbilical cord binding political economy to natural right—a cord which for Quesnay had formed an unbreakable thread Political economy becomes an *independent science*, and this is one of the great achievements of the Classical school On the other hand, the ground is being prepared for counterposing *eternal and immutable economic laws* to historically transient and alterable socio-political conditions, and this is one of the Classical school's flaws In their view, the nature of economic forces does not alter, even though they may be compelled to operate in different social surroundings. In Smith's eyes economic life is a combination between economic forces, the nature of which does not alter, and historical conditions, which do; the latter acceler or slow down the movement of the former, but do not change their nature Although an interest in changes in historical conditions is not foreign to Smith, he sees the economist's main task as studying the activity of economic forces which by nature are immutable

What do these economic forces consist of? As is clear from the passage quoted above, Smith has in mind 'the natural effort which every man is continually making to better his own conditon '[2] These *'natural efforts' of each individual* are a perpetual *stimulus to economic progress* The constancy and immutability of their action flows from the *constancy of human nature* Man, who by virtue of his egoistical nature strives constantly to improve his own condition, is 'far more interested in that which directly concerns himself than he is in that which concerns others' [3] Within the complex and changing web of economic phenomena we will find one *constantly acting force*: 'the uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which publick and national, as well as private opulence is originally derived'.[4] For Quesnay the necessary condition of economic progress is the implementation of an *immutable system of natural right*; for Smith it is the activity of the *immutable nature of 'economic man'*. The type of 'economic man' at the centre of the Classical school's constructs, in independent pursuit of his own personal interests through free competition with others, is none other than an idealization of the independent commodity producer tied to other members of society by relations of exchange and competition. The Classical economists took the socially-conditioned and historically changing nature of the commodity producer and elevated it to being the naturally-conditioned and immutable nature of man in general.

Once the aspiration of the individual to better his situation is made to flow from the constancy of human nature, it is obvious that it will be operative in *all historical epochs* and under *any social conditions*. Smith challenges the view (which he attributes to Quesnay) that the individual exhibits this striving only under conditions of complete freedom. Smith's view is that it has been operating many hundreds of years before complete freedom (i.e., the bourgeois order) was ever realized, gaining victory over bad administration and legislation. Unfavourable social conditions are certainly able to retard the activity of these economic forces. Under slavery, for instance, the workers had no personal interest in the progress of production, whereas 'on the contrary, when they are secure of enjoying the fruits of their industry, they naturally exert it to better their condition'.[5] Invariable human nature manifests itself most forcefully under definite social conditions, namely those of the bourgeois order based on *private property* and unrestricted *competition*. Instead of explaining the nature of man-as-commodity-producer by the conditions of this social system, however, Smith sees the latter simply as an additional condition for the full outpouring of the individual forces located within man's permanent nature. The victory of one social system over another (the bourgeois order over the feudal) appears to Smith (as to other members of the 18th-century Enlightenment) as a victory of man's 'natural', immutable nature over the 'artificial' social institutions of the past. And as the new bourgeois social institutions are a necessary condition for the complete manifestation of the invariable nature of the individual, they thereby take on the character of eternal, 'natural' forms of economy.

Thus the starting point of Smith's investigation, his abstract economic man, is studied, so to speak, within a bourgeois encirclement, i.e., the commodity-capitalist economy. This abstraction from social factors, for all the errors it produced in evaluating such factors through the prism of human 'nature,' proved to be the saviour of Classical theory. For it allowed it to become a *theory of commodity-capitalist economy*.

How does Smith bridge the gap from his abstract individual to commodity-capitalist society? True to his original individualistic principles, Smith moves from the individual to society. Society is composed of separate, independent individuals: the social phenomenon is the result of these different individuals interacting with one another; social unity (insofar as we are talking about the economic side of society) is fashioned out of, and held together by these individuals' personal interests. So far as their economic contacts are concerned each individual enters into intercourse with others only insofar as this is dictated by his own *personal interests* and promises him some form of gain. The form of this intercourse is *exchange*. 'The propensity to truck, barter, and exchange one thing for another' is an essential principle of human nature. This permanent characteristic causes individuals to join together into an exchange society.

Society looked at as an economic unit, is an *exchange society* which separate persons enter into out of their *personal interests*. Already in Smith's early work, *The Theory of Moral Sentiments*, we find this extremely revealing passage: 'Society may subsist among different men, as among *different merchants*, from a sense of its utility, without any mutual love or affection; and though no man in it should owe any obligation, or be bound in gratitude to any other, it may still be upheld by a *mercenary exchange* of good offices according to an agreed valuation.'[6] Smith conceives of economic intercourse between people as a form of exchange, in other words, as *economic intercourse between the owners of commodities*. Smith develops this idea further in the second chapter of Book I of *The Wealth of Nations*: 'But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their *self-love* in his favour, and shew them that it is for *their own advantage* to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. *Give me that which I want, and you shall have this which you want*, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to *their own interest*.'[7] An individual's personal interest prompts him to enter into exchange with other people; and the aspiration to exchange, as we shall see, calls forth in turn the division of labour between people.

The argument just presented brilliantly characterizes Smith's *individualist and rationalist* method. Smith explains the origin of the most important social *institutions* (in this instance, exchange and the division of labour) by the undeviating nature of the *abstract individual*—his personal interest and conscious striving for the greatest gain. He thereby attributes to abstract man *motives and aspirations* (here, the striving to barter or exchange) that are in fact the *result* of the influence exercised on the individual by these same *social institutions* (the division of labour and exchange) over long periods of time—influences which he then adduces as a means of explaining these institutions. Smith deduces the basic socio-economic institutions that characterize the commodity-capitalist economy from the nature of man; what he takes as human nature, however, is the determinate nature of man as it takes shape under the influence of the commodity-capitalist economy.

Smith applies this same method of moving from the individual to society when explaining other socio-economic institutions. He explains the appearance of money by the simple fact that, owing to the inconvenience of *in natura* exchange, '*every prudent man in every* period of society, after the first establishment of the division of labour, must *naturally* have endeavoured to manage his affairs in such a manner, as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or other, such as he imagined few people would be likely to refuse in exchange for the produce of their industry.'[8] The words that we have italicised are those which especially characterize Smith's method. We should look for explanations of social institutions in the nature of '*every man*', that is, in the personal interests of each individual; hence we call Smith's method *individualist*. We call it *rationalist* because, in talking about the '*prudent*' man who consciously weighs up his advantages, Smith takes the rational calculation of the benefits and losses inherent in distinct economic activities—a calculation which only develops within the soil of highly developed commodity and capitalist economy—to be a property of human nature in general. Moreover these actions of the individual take place 'in *every* period of society' (once the division of labour has been established); this assertion reveals the *anti-historical* nature of Smith's method Finally, Smith takes these activities of the individual as *'natural'*; here Smith grounds himself on the theory of natural right, introducing, however, important improvements that we will need to dwell on further.

According to Smith's basic *sociological conception*, socio-economic phenomena result from the actions of individuals as dictated by personal interest; it follows from this—and this conclusion is extremely important—that *economic phenomena are 'natural' in character*. The concept 'natural' is being used here in two different senses, one theoretical, the other practical The basic proposition of Smith's *theoretical* system states that *economic phenomena possess an inherent, 'natural', law-determined regularity,* which exists independently of the will of the state and is based on the immutable 'natural' inclinations of the individual. The basic proposition of Smith's *economic policy* states that only when economic phenomena proceed 'naturally', unconstrained by the state, do they *bring maximum benefit both to the individual and to society as a whole* The first of these propositions made Smith one of the founders of *theoretical economics*; the second made him the town crier of *economic liberalism*.

Let us begin with the second proposition Once the individual's personal interest is seen as the stimulus of economic progress and the source of all economic institutions, the individual must be given the possibility to develop his economic powers freely, without any obstacles The main precept of economic policy is *freedom of individual economic activity* and the elimination of *state interference* There is no danger that in struggling for his own personal interest the individual will violate the interests of society as a whole The interests of the individual and those of society are in *complete harmony*. Out of this mutual interaction of individuals—each of whom pursues only his correctly-understood personal interests—arise the most valuable social institutions, which in turn foster a tremendous rise in the productivity of labour: the division of labour, exchange, money, the accumulation of capitals, and their proper distribution between the different branches of production. A man 'by pursuing his own interest ... frequently promotes that of the society more effectually than when he really intends to promote it.'[9] Thus 'every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society.'[10] The government refrains from interfering in economic life, and preserves for itself only the modest functions of defending the country's external security, protecting individual persons from oppression by other members of society, and concerning itself with certain social undertakings. Economic life is given over wholly to the free play of individual interests. Smith, like the Physiocrats, expected that the realization of this 'obvious and simple *system of natural liberty*' [11] would result in maximum benefit both for society as a whole and for the separate classes of the population.

Smith's optimistic views—which for all the reservations that he placed upon them made him the founder of *economic liberalism*—could make their appearance only in an epoch when the industrial bourgeoisie still played a progressive role and its interests coincided with the needs of the overall economic development of society. Smith's aim had never been to defend the narrow interests of merchants and industrialists, towards whom he evinced no particular sympathy. He spoke about the condition of the workers, often with ardent feeling, and he wanted to improve it. But he was deeply convinced that only with complete freedom of competition and the powerful development of the capitalist economy would it be possible to expect any improvement in the position of the lower classes. He believed that the working class would receive an ever-increasing share in the growing mass of wealth of capitalist society. Capitalism's future development was to prove Smith's optimistic expectations wrong and lay bare the irreconcilable contradictions between the interests of the bourgeoisie, on the one hand, and those of the working class and the economic development of society as a whole, on the other. In its day optimistic liberalism played a positive role as a tool for freeing the productive forces of capitalist economy from the fetters of the old regime and of mercantilism, but later on, in the hands of Say, and especially of Bastiat, it was turned into an instrument for defending capitalism against the attacks of the socialists.

Smith, therefore, considered the economic phenomena of bourgeois society to be 'natural,' in the sense that they had been arranged in the best possible fashion and required no conscious intervention by any agencies of the state or of society. In this sense, to identify a phenomenon as 'natural' is the same as judging it as something positive. Here, to be *'natural'* means that it corresponds to the principles of *natural right*. In addition to using the term 'natural' in an evaluative sense, however, Smith also employs it when making purely theoretical judgements, where his task is to investigate a phenomenon as it exists, independently of any positive or negative assessment. Here to identify a phenomenon as 'natural' has a *purely theoretical* meaning, indicating, as we have already noted, that economic phenomena possess an inherent, *'natural' law-determined regularity* independently of any interference from the state. When Smith says that the 'natural price' (the value) of a commodity replaces its costs of production and earns an average profit, he means that where there is free competition and no intervention by the state the prices of commodities will have a tendency to establish themselves at the level indicated. This spontaneously established normal level for the price of the commodity in question, constitutes its 'natural' price. What is 'natural' in this instance is the result, reached regularly and spontaneously without the state placing any constraints upon the free competition of individuals. Hence the concept 'natural' embraces two characteristics: 1) *spontaneity*, and 2) *law-determined regularity*. As to the first, a price is only recognized as 'natural' when it is the *spontaneous result* of free competition and the conflict of individual personal interests; in this sense the *'natural'* (free) price is to be counterposed both to the *'legally set'*, fixed price established by the state or the guilds, and to a *'monopoly'* price. As to the second attribute, not every market price is identified as 'natural,' but only 'the central price, to which the prices of all commodities are *continually gravitating*,' [12] in other words, that level of prices which must be established under conditions of *market equilibrium*, where there is a balance between supply and demand. In this sense Smith differentiates *'natural'* price (value)—which expresses the law-determined regularity of market phenomena—from *'market'* prices, which constantly fluctuate depending upon fluctuations in supply and demand.

This second concept of 'natural' plays an extremely important part in Smith's theoretical system: he speaks of natural price, the natural level of wages, of profit, and of rent. Here the concept 'natural' means not that the precepts of natural right are being adhered to, but is a recognition of the *spontaneous law-determined regularity of market phenomena*. Although Smith from time to time uses the term in its first, evaluative sense, he most frequently employs it in its second, purely theoretical meaning; in any case, he does not confuse the practical and theoretical meanings of the term. Smith's transition from an evaluative to a theoretical understanding of the term 'natural' marked a great step forward for the *purely theoretical, scientific-causal study of economic phenomena*

The economic investigations of the mercantilists were practical in character. Their works were overwhelmingly a collection of *practical prescriptions* recommended to the state for implementation. The embryos of a theoretical analysis that we find in Petty had little impact upon the general train of mercantilist thought. With the Physiocrats as well, attention was focused not so much upon investigating that which existed (i.e., the real phenomena of the capitalist economy) as upon elaborating that which ought to have existed (i.e., the conditions which had to be realized if the nation's economy was to flourish). They looked upon their economic laws and propositions as the *prescriptions of natural right*. It is only because they took capitalism as the ideal natural order that the Physiocrats' analysis contains theoretically valuable elements for an understanding of capitalist economy. If the mercantilist system was by nature *practical*, and that of the Physiocrats *teleological*, Smith consciously set himself the task of studying the capitalist economy *theoretically*. It is true that questions of economic policy are for Smith extremely important and are often interwoven with his theoretical analysis in the course of his exposition; nevertheless, in the main the latter is kept methodologically distinct and isolated from his considerations of practical issues. It is true that some of Smith's more serious errors can be explained by his confusion of theoretical and practical problems (see the chapter below on the theory of value), but in this there is no cause for surprise: because it had grown out of practical needs and had been dissolved into economic policy in its primitive stages, economic theory was not immediately capable of gaining a clear awareness of itself as a method of purely theoretical analysis. In any event, Smith's analysis represented a great and methodologically decisive service: he set political economy onto the path of *theoretically studying the real phenomena of capitalist economy*. Smith's reputation as the founder of political economy rests upon this.

1 Adam Smith *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by R.H. Campbell, A.S. Skinner, and W.B. Todd (Oxford University Press, 1976) Book IV, Chapter 9, p. 674. Rubin's italics
2 *Ibid.* Book IV, Chapter 9, p. 674
3 Translated from the Russian

4 *Wealth of Nations* Book II. Ch 3. p 343
5 *Ibid* Book III Ch. 3, p 405.
6 Adam Smith *The Theory of Moral Sentiments* (London George Bell & Sons, 1875) Part II Section II Chapter 3 p 124. Rubin's italics
7 *Wealth of Nations*, Book I, Chapter 2 pp 26-27 Rubin's italics
8 *Ibid*, Book I Ch 4 pp 37-38 Rubin's italics
9 *Ibid* Book IV Ch 2, p 456. This is the passage where Smith articulates his famous concept of the invisible hand 'As every individual therefore, endeavours as much as he can both to employ his capital in the support of domestic industry and so to direct that industry that its produce may be of the greatest value every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed neither intends to promote the public interest nor knows how much he is promoting it By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value only his own gain, and he is in this as in many other cases led by an invisible hand to promote an end which was no part of his intention Nor is it always the worse for the society that it was no part of it By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it '
10 *Ibid* Book IV Ch 9, p 687
11 *Ibid* Book IV, Ch 9, p 687 Rubin s italics
12 *Ibid* Book I Chapter 7, p 75 Rubin s italics

CHAPTER TWENTY-ONE

The Division of Labour

Smith's very first lines show that he had clearly introduced something new into economic science It is interesting to compare the beginning of Smith's work with that of Mun's 'mercantilist gospel'. 'The ordinary means therefore to increase our wealth and treasure is by *Forraign Trade*.'[1] That is how Mun—who sees commerce, or the sphere of circulation as the source of all wealth—begins his book. Smith, like the Physiocrats, shifts the focus of analysis onto production but in doing so avoids their onesidedness: it is *labour in general* that he proclaims the sole source of wealth, i.e., the entire labour of a nation as distributed over the different branches of production and divided up between society's individual members: 'The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes '[2] The source of *wealth* is *labour*. Here 'labour' is to be understood as the total, aggregated labour of a nation having the form of a social division of labour, and 'wealth' as the totality of material products or articles of consumption

If it is labour that creates wealth, then *increases* in the latter can take place under one of the following two conditions: 1) there is a rise in the individual worker's *productivity of labour*, or 2) *the number of productive workers* increases compared to other members of society. A rise in the productivity of labour, however, is a result of the *division of labour*, while an increase in the number of productive workers demands an increase and *accumulation of the capital* spent on maintaining them. Smith divides up the first two theoretically orientated books of *The Wealth of Nations* accordingly. Book One begins by describing the *division of labour*; from here Smith passes to the closely associated phenomena of exchange (*money, value*) and the distribution of what is produced (i.e., *wages, profit, and rent*). Book Two contains his theory of *capital* and his doctrine on the *accumulation of capital* and *productive labour*.

The first chapters of *The Wealth of Nations*, devoted to the division of labour, have always been considered among the most brilliant; it is they that have made the greatest impact by virtue of their sweep and eloquence of description. For all practical purposes Smith says little that is new compared to his predecessors (Petty, Furguson); yet what a happy intuition it was that led him to place his description of the division of labour at the very beginning of the book. Because of this, commodity society at once emerges as a society based on the one hand on the *division of labour* and on the other upon *exchange* between individual economic units—in other words, as a society based on *labour* and *exchange* (a 'commercial society,' to use Smith's term).

Smith begins with his well-known description of a *pin-making manufactory*, with its detailed division of labour between ten workers: one draws the wire, another straightens it, a third cuts it, etc. By breaking down the labour process into extremely simple operations, each of which is assigned to an individual labourer, the productivity of labour is raised 100 times: those ten workers produce 48,000 pins a day, whereas each of them working separately could barely produce twenty pins in a full day. Smith enumerates three reasons why the division of labour raises labour productivity: 1) each worker acquires greater *dexterity* by constantly repeating the same operations; 2) there is no *time* lost in switching from one operation to another; and 3) breaking the labour down into basic operations facilitates the invention of labour-saving *tools* [3] The arguments used by Smith are characteristic of the manufactory period, which was itself characterized by the specialization of workers to a few partial operations and by the differentiation of tools. Smith's assertion that the *division of labour* is the main reason for the growth in labour productivity places him squarely in his context. His underestimation of the role played by the implements of labour, and by *machinery* in particular is quite understandable given that his was an age still prior to the onset of the industrial revolution and the manufactories' technical superiority relied on a minutely executed division of labour. Although at the beginning of his book Smith describes only the beneficial aspects of the division of labour inside the manufactory, in other passages he explains how humiliating the monotonous character of the work is to the individuality of the worker performing only partial operations and how it makes him 'stupid and ignorant' [4]

From the pin-making manufactory Smith quickly moves on to other examples of the division of labour. Here he takes as his example not the division of labour *within a single* enterprise, but the division of labour between *different* enterprises belonging to different branches of production. Smith brilliantly depicts how cloth passes through a series of economic units, beginning with the sheep farmer, whose labours are devoted to obtaining the wool, and ending with the worker employed at dyeing and finishing the cloth. It is here, when describing this type of division of labour, that Smith is at his most eloquent. 'Observe the accommodation of the most common artificer or day-labourer in a civilized and thriving country, and you will perceive that the number of people of whose industry a part, though but a small part, has been employed in procuring him this accommodation, exceeds all computation. The woollen coat, for example, which covers the day-labourer, as coarse and rough as it may appear, is the produce of the joint labour of a great multitude of workmen. The shepherd, the sorter of the wool, the wool-comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, with many others, must all join their different arts in order to complete even this homely production.'[5] Over and above this were also employed merchants and carriers, shipbuilders, workers who fashioned the tools, etc. Here it is everywhere a question of a division of labour between different commodity producers or individual enterprises.

We see here that Smith confuses the *social* division of labour with the division of labour within the *manufactory*, which is *technical*. He fails to perceive the deep social distinction that exists between these two forms of the division of labour. The social division of labour between individual enterprises, being based on the exchange of their products, comprises the basic feature of any *commodity* economy and is already significantly developed under craft production; the technical division of labour within a single enterprise appeared only with the emergence of large-scale, *capitalist* enterprises, i.e., the manufactories. The first of these forms presupposes that the means of production are *broken up* between independent commodity producers; the latter presupposes the *concentration* of substantial means of production in the hands of a single capitalist. The separate, independent commodity-producers (handicraftsmen) are bound to one another only by exchanging their products on the market. In the manufactory the individual workers are bound to each other by the general direction of the capitalist. In the first instance the nature of the bond between people is *disorganized, spontaneous, and through the market*; in the second it is *organized and planned*.

Smith failed to take account of these distinctions because his attention—and this is generally speaking *one of the characteristic features of the Classical school*—was focussed not on the *social forms* of the division of labour but upon its *material and technical advantages* in raising the productivity of labour. From this standpoint, since both forms taken by the division of labour act to raise labour productivity, they can be treated as identical The different social natures of the mutual relations between independent commodity producers, on the one hand, and the workers in a single manufactory, on the other, recede into the background, escaping the author's attention

In his first chapters Smith's main task is to describe the *social division of labour* based on exchange and characteristic of any commodity economy Greatly influenced, however, by the type of division of labour to be found within the manufactory, Smith also adduces examples from this sphere, and is in general inclined to depict the social division of labour as a form of the division of labour within the enterprise To Smith, the whole of society appears as a gigantic manufactory, where the work is divided up between thousands of separate but mutually complementary enterprises *The material connection and interdependence* between commodity producers is placed in the forefront Each member of society is useful to all the others, and is compelled in turn to enlist their assistance 'Without the assistance and cooperation of many thousands, the very meanest person in a civilized country could not be provided, even according to the easy and simple manner in which he is commonly accommodated '[6] All people, though each of them be animated simply by the pursuit of personal gain, in reality work for one another: 'the most dissimilar geniuses are of use to one another';[7] *a complete harmony of interests* exists between society's individual members

Here we *come accross a second feature of the Classical school*, closely tied to the first Because Smith has directed his attention towards the material and technical interdependence between the individual members of society, he assumes that these individuals enjoy *a complete harmony of interests* Through their labour the spinner and weaver mutually complement one another; the one could not exist without the other. Smith forgets, however, that both are commodity producers who sell their products on the market The struggle over the price of the product (e g , that of yarn) creates a deep antagonism between them; both branches of production, under the pressure of fluctuations in market prices and through the ruin of numerous producers, adapt to one another spontaneously Smith's concern for the material and technical advantages of the division of labour, rather than for the social form that it assumes in a commodity-exchanging economy, leads him to overestimate the elements of *harmony* in such an economy and to ignore the *contradictions and antagonisms* that it produces

Despite this, Smith did grasp the close connection between *the division of labour* and *exchange* and in fact lays great stress on it. A feature of the Classical school is not that it completely abstracts the material and technical side of production from its social from, but that it confuses the two. To the Classical School it was inconceivable that the process of production could have any social form other than a commodity capitalist one, which in their eyes is the rational and natural form of economy. Once it is assumed that the process of production always takes place within a specific social form, it becomes superfluous to carry out a special analysis of that form; rather it is enough simply to study the process of production in general. However, because the process of production in general is tied irrevocably to a given social form, the conclusions obtained from studying the former are fully applicable to the latter. Hence it happens that the Classical economists constantly *confuse* the *material-technical* and *social* points of view, an example of which is afforded by Smith's doctrine on the division of labour.

Smith cannot imagine any division of labour other than one based on exchange—for him a necessary property of human nature, one which distinguishes man from animals. This *propensity to exchange* called forth the *division of labour*. On this point Smith is mistaken, since the social division of labour has existed—albeit on a modest scale—even where a commodity economy had been absent, e.g., in the Indian commune. At another point Smith correctly notes that the development of exchange provides an impetus for the further division of labour: 'the extent of this division must always be limited by the extent of that power [the power of exchange—Ed.], or, in other words, by the extent of the market.'[8] Though he lays great stress upon the effect of exchange in bringing about and developing the division of labour, Smith nevertheless ignores the role of exchange as that *specific social form* that the division of labour assumes in commodity economy. He is constrained by his analysis of the division of labour in general and its material and technical advantages.

For all its inadequacies, Smith's *theory of the division of labour* did him a *great service*: by starting out from a conception of society as a gigantic workshop with a division of labour, Smith arrived at the extremely valuable idea of society as a society of people who *labour* and who simultaneously *exchange*. The division of labour makes all members of society *participants in a single process of production*. The products of labour of all members of society are 'brought, as it were, into a common stock, where every man may purchase whatever part of the produce of other men's talents he has occasion for '[9] Each man becomes dependent on the labour of other people 'But after the division of labour has once thoroughly taken place, it is but a very small part of these [the 'necessaries, conveniencies, and amusements of human life'—*Trans*] with which a man's own labour can supply him. The far greater part of them he must derive from the labour of other people '[10] Each man acquires the produce of other people's labour, and they are thus united together into a single *labouring society*. Smith conceives of his labouring society strictly as an *exchange society*: 'When the division of labour has been once thoroughly established, it is but a very small part of a man's wants which the produce of his own labour can supply He supplies the far greater part of them by exchanging that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a *commercial society* '[11] The social division of labour appears to Smith only in the form of exchange, while, on the other hand, the *exchange of the produce of labour* is reduced, according to this view, to *an exchange of the labouring activities* of individual producers. Commodities 'contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity '[12] By acquiring the product of someone else's labour I thereby acquire the labour of its producer

The Smithian conception of society as at one and the same time a labouring and an exchanging society can be expressed by the following two propositions: 1) what appears as a market exchange of commodities *for money* is in reality the mutual exchange of the *products of labour* of the different persons who, between them, perform the whole of social labour; 2) the exchange of the *products* of the different people's labour reduces itself to the mutual exchange of the producers' very *labour* With the first proposition Smith took his distance *from the mercantilists*; with the second he differentiates himself from the *Physiocrats*

The *mercantilists*, though focussing their attention upon exchange, were blinded by its market, *monetary* form: they saw only the exchange of an *in natura* product for money, i e., for social wealth, and wanted to limit the entire exchange process to the sale, C-M, and then convert the money into treasure Smith, following the example of the Physiocrats, saw exchange as a unity of the acts of sale (C-M) and purchase (M-C_1), in other words, as an exchange of one *in natura* product (C) for another (C_1) through the medium of money; the latter plays only a transitory role as *means of circulation* Hence Smith's *assessment of the role of money* is the opposite to that of the mercantilists. Money does not constitute the wealth of society 'The revenue of the society consists altogether in those goods, and not in the wheel which circulates them.'[13] Money is needed merely as an auxiliary for facilitating the circulation of products 'The gold and silver money which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces not a single pile of either' [14] Money is simply 'dead' capital: an increase in the quantity of money in a country correspondingly lowers outlays on the material production of products and consequently reduces society's real income which consists in what it produces. Any savings on the outlays needed to maintain the monetary system (e g., replacing gold with bank notes) are to society's overwhelming advantage.

Thus, *the exchange of a commodity for money* is in essence nothing but an *exchange of one product for another* Thus far Smith is in agreement with Quesnay, whose *Tableau Economique* presented the first overall picture of the circulation of products.* Beyond this, however, they begin to diverge

Although there were a number of particular questions where Smith was simply repeating the views of the Physiocrats,** in essence he overcame their onesidedness through his theory of the division of labour and value. The point of view from which Smith starts out is that labour creates wealth The circulation of products is, in his view, not a movement of the *substance of nature*, but a circulation of the *products of labour*. Because for Smith society is a labouring society, he sees the exchange of the products of labour as an *exchange of the labouring activities* of society's individual members. Once the division and mutual exchange of labour are made the basis of commodity economy, it is evident that the different branches of production are bound to each other by relations of *mutual dependence*, rather than

*See above Chapter Fifteen

**Thus, for example, he considered agricultural labour to be more productive than industrial labour, asserted that in the 'natural' course of development capitals would first be invested in agriculture and only later on in industry etc of *one-sided subordination* Industry is not subordinated to agriculture but coordinated with it Smith posits, in place of the *unidirectional flow of the substance of nature* from agriculture to industry,* a *two-directional transmission of the products of labour* originating from wherever it is that human labour is being applied: one flow of products passes from agriculture to industry, a counter flow moves from industry to agriculture The two flows cross each other and are balanced out on the basis of an *exchange of equivalents*, which is the theory of value's object of study

Smith could accord a central role to the *theory of value* (a theory that was virtually non-existant amongst the Physiocrats) precisely because he was able to identify the problem of how the different *branches of production* were economically *coordinated*, and to keep this question separate from the problem of the economic *subordination* of different *social classes* He took up the latter in his theory of distribution; the first he dealt with in his theory of value Although theoretically the two problems were closely interconnected, and the theory of distribution was built up on the basis of the theory of value, it was nevertheless necessary that they be studied separately; this in turn helped Smith to do away with the conceptual confusion that had kept the Physiocrats from correctly grasping both the class structure of society and the interdependence that exists between branches of production (agriculture and industry) Smith, too, continued to confuse these two problems, as we will see, and in so doing introduced contradictions into his theory of value All the same, his merits were enormous: he identified the problem of coordination between *branches of production* of equal standing; he depicted the interrelation between them as a *mutual exchange of products of labour*; and he perceived that behind this exchange of products lies an *exchange of labour* By doing this he assigned the *labour theory of value* that central place which it continues to occupy in economic science

*In Quesnay s scheme industry simply returns to agriculture in another material form the substance of nature that it received from it

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1 Mun, *England s Treasure by Forraign Trade* McCulloch edition *op cit* p 125 (Mun s italics).

2 Smith, *The Wealth of Nations*, Introduction and Plan of the Work p 10

3 *Ibid* pp 14-17

4 'In the progress of the division of labour the employment of the far greater part of those who live by labour that is of the great body of the people comes to be confined to a few very simple operations; frequently to one or two But

the understandings of the greater part of men are necessarily formed by their ordinary employments The man whose whole life is spent in performing a few simple operations of which the effects too are, perhaps, always the same or very nearly the same has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur He naturally loses therefore the habit of such exertion and generally becomes as stupid and ignorant as it is possible for a human creature to become The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous noble or tender sentiment and consequently of forming any just judgement concerning many even of the ordinary duties of private life . The uniformity of his stationary life currupts even the activity of his body and renders him incapable of exerting his strength with vigour and perseverance in any other employment than that to which he has been bred His dexterity at his own particular trade seems in this manner to be acquired at the expence of his intellectual social and martial virtues But in every improved and civilized society this is the state into which the labouring poor that is the great body of the people, must necessarily fall unless government takes some pains to prevent it' *The Wealth of Nations* Book V Chapter 1 pp. 781-82

5 *Ibid* Book I Ch 1 p 22

6 *Ibid* Book I Ch 2 p 23

7 *Ibid* Book I Ch 2 p 30.

8 *Ibid* Book I Ch 3 p 31

9 *Ibid* Book I Ch 2 p 30

10 *Ibid* Book I Ch 5 p 47

11 *Ibid* Book I Ch 4 p 37; Rubin s italics

12 *Ibid*, Book I Ch 5 pp. 47-48

13 ' . as the machines and instruments of trade, &c which compose the fixed capital either of an individual or of a society make no part either of the gross or of the neat revenue of either; so money by means of which the whole revenue of the society is regularly distributed among all its different members, makes itself no part of that revenue The great wheel of circulation is altogether different from the goods which are circulated by means of it The revenue of the society consists altogether in those goods and not in the wheel which circulates them In computing either the gross or the neat revenue of any society we must always, from their whole annual circulation of money and goods, deduct the whole value of the money of which not a single farthing can ever make any part of either' *Ibid* Book II Ch 2 p 289

14 *Ibid* Book II Ch 2 p 321

CHAPTER TWENTY TWO

The Theory of Value

In setting out to analyze the concept of value, Smith draws a primary distinction between *use value* and *exchange value*: the former he places outside the scope of his investigation and devotes his entire attention to the latter. In this way Smith grounds himself firmly in the study of commodity economy, where each product is designated for exchange rather than for the direct satisfaction of the needs of its producer. Smith owes his ability to pose the question in such a principled and clearcut fashion to his doctrine of the division of labour: in any society based on the division of labour each producer will be fashioning products needed by other members of society.

Thereby, Smith very precisely, and absolutely correctly defines the *object*[1] of his investigation: exchange value. On the other hand, if we ask what is the exact point of view from which Smith studies this object, we find a methodological *duality* in the way that he poses the problem. On the one hand, Smith wishes to uncover the causes that determine first, how much value a commodity possesses and second, any changes in this magnitude; on the other hand, he wants to find a precise, invariable standard which could then be used to measure the value of a commodity. On the one hand he aspires to lay bare the *sources of changes* in value and on the other to find an *invariable measure* of value. It is clear that there exists a fundamental methodological difference between these two ways of posing the question, and that this difference must introduce a dualism into the core of Smith's theory. The theoretical study of real changes in value becomes confused with the practical task of arriving at the best measure of value.[2]

As a result of this confusion, Smith's analysis of exchange value becomes bifurcated and flows along two methodologically different channels: the one the discovery of what causes changes in value, the other the search for an invariable measure of value. Each of these paths leads Smith to a particular conception of labour value or of labour as the basis of value. The first leads him to a concept of *the quantity of labour expended on the production of a given product*, the second to a concept of *the quantity of labour which a given* *commodity can acquire or purchase through exchange.*

Smith asks, at the outset of his investigation, wherein consists 'the real measure of exchangeable value'? The quest for such an *invariable measure* occupies the better part of his attention (Book I, Chapter 5). To understand why Smith directs his analysis along such a methodologically incorrect path we ought to recall that Smith had inherited the problem of finding a *measure of value* from his *mercantilist* predecessors. For the mercantilists, inclined as they were to address themselves to practical problems, the theory of value had as its practical task to find a measure of value; we will recall how Petty and Cantillon had sought a measure of value in the 'equation between labour and land.'* It was only slowly and gradually over the course of the 18th century—and largely due to the efforts of Smith himself—that political economy was turned from an agglomeration of practical rules into a system of theoretical propositions, and that the concept of there being theoretical laws behind phenomena ceased to be mixed together with practical prescriptions (as the mercantilists had done) or with 'natural law' (as had the Physiocrats). In Smiths's theory of value this task of theoretically studying the causes of real economic phenomena had still not freed itself from extraneous elements of a practical character.

Smith's general individualist and rationalist approach intruded equally into his search for a measure of value. Earlier we saw that Smith explains the origin of socio-economic phenomena by the utility they possess from the point of view of the isolated economic individual.** He adopts this same approach when dealing with the division of labour and exchange. The division of labour, which is founded upon exchange, makes it possible for each individual to obtain the articles that he needs by exchanging his own product, which thereby acquires special significance for the individual by virtue of his ability to exchange it for other articles. From the *individual's* point of view, the first *practical* question to be posed is how great a *significance does this article hold for him*, i.e., what is the precise measure of exchange value?

What, then, is the measure or index of the value of a given product? It would seem at first glance that we could take as our measure the quantity of other commodities that we get in exchange: the greater their number the higher, obviously, is the value of the commodity

* See above, Chapter Seven.
** See Chapter Twenty.

in question. Smith quite rightly rejects this answer, on the grounds that the value of the commodity that I receive in exchange for my own product is itself subject to constant changes. It is equally impossible to measure the value of a commodity by the quantity of *money* (gold) that it will exchange for, since gold, too, changes in value.

In that case, by what could I measure the value of my product? To answer this question Smith makes recourse to his theory of the division of labour: there he established that a society based on the division of labour is a society of people who labour and who, through mutual exchange of the products of their labour, indirectly exchange their labour. Smith, however, takes what is an extremely valuable objective-sociological conception of exchange value (one which Marx was to use as the basis of his own theory of value) and gives it a *subjective-individualist* interpretation. An exchange society is founded upon the mutual exchange of the labour of its members. Smith then asks, what does this exchange reduce itself to from the standpoint of the isolated individual? His answer: to *the acquisition of the labour of other people* in exchange for his own product. In exchanging the cloth that I have made for sugar or money I am in essence acquiring a definite quantity of other people's labour. My cloth has a greater exchange value the greater the quantity of other people's labour I can dispose over, or 'command', in Smith's expression, in exchange for it. Because of the social division of labour I can obtain what products I need by exchanging products that I have produced, rather than producing these necessities myself, with my own labour. Consequently, I can measure the value of what I have produced by the quantity of other people's labour that I receive when exchanging it. *The quantity of labour which can be acquired or purchased* in exchange for a given commodity is the measure of that commodity's value.*

Although Smith's theory of the measure of value would seem to flow out of his conception of exchange society as a society of labourers, it suffers from the following defect. When we say that in a society of simple commodity producers all of its members exchange the products of their labour, and hence also their labour itself, we are using the term 'exchange' in *two* different ways. The *products* of labour *really are exchanged* and placed on an equal footing with one another in the market; here we have exchange in the literal sense of the word. As regards the 'exchange' of actual labour, we mean essentially a process

As a secondary measure of a commodity's value Smith takes the quantity of *corn* that it will purchase through exchange (since a given amount of corn will always be able to purchase approximately the same quantity of labour).

through which the labouring activities of individuals are bound to one another and distributed, a process closely associated with the market exchange of the products of labour. Literally speaking there is *no* exchange of *labour*, since it is not actual labour that is bought and sold on the market, but only the products of labour. The labouring activity of people performs a definite *social function*, but it is not an *object of purchase and sale*. When we say that there is an 'exchange' of labour we mean that labours are made socially equal [*uravnenie*] and not that they are equated [*priravnivanie*] on the market.

Thus, when we say that in an exchange society (where people relate to one another as simple commodity producers) I use my cloth to acquire domination over, or to purchase someone else's labour, this says merely that I exert an indirect influence upon the labour of another commodity producer by acquiring what he has made. I exchange my product directly for a product of labour, and not for someone else's labour. In exchange for my cloth I receive sugar, and thereby indirectly the labour of the sugar producer. In other words, I acquire the labour of another person in an already *materialised* form, as a *product* that he has produced. This differs enormously from the *direct* exchange of my cloth for someone's labour, i.e., for the *labour power* of a hired worker. What differentiates these two cases so sharply is not simply the *material form* of the labour being purchased (materialised versus living), but also the type of *social relations* that bind together the participants in the exchange. In the first case they enter into a relation with one another as simple commodity producers; in the second, as capitalist and worker. The first case (i.e., an exchange of one *product for another*, or for materialised labour) constitutes a basic feature of any commodity economy; the second (i.e., the exchange of a *product for living labour*, or of capital for labour power) occurs only within a capitalist economy. Only in the second instance does labour function directly as an *object of purchase and sale* or as a commodity (i.e., labour power).

Smith's mistake was to confuse the *social 'exchange'* (or more properly, equalisation) of labour that takes place in any commodity economy with the *market 'exchange'* of labour as an object of purchase and sale that occurs in a capitalist economy. Smith says that I acquire or purchase with my cloth the labour of other people. But when it is asked whether I am exchanging my cloth for materialized labour (i.e., for the product of someone else's labour) or for the living labour of a hired worker, Smith gives no clear cut answer. He talks about 'the quantity either of other men's *labour*, or, what is the same thing, of the *produce* of other men's labour which it allows him [the owner of the given commodity—*I R.*] to purchase or command.'[3] Smith carries this confusion of labour with the products of labour right through his analysis. At the beginning of Chapter 5 Smith usually has in mind indirectly disposing over the labour of other independent commodity producers by acquiring the products of their labour. But by the end of this chapter he is already laying greater stress upon the exchange of a commodity for living labour, or *labour power*: the commodity owner appears now as an 'employer' and the commodity surrendered in exchange for labour as 'the price of labour', or the worker's wage.[4] To introduce features inherent in a *capitalist economy* into an analysis of the value of commodities, or of a *simple commodity economy* means to bring into this analysis a terrible confusion. Smith's conception of the labour which is purchased in exchange for a given commodity, and which serves as a measure of that commodity's value, becomes really two concepts: sometimes it appears as the *'materialised labour purchased'*, and sometimes as the *'living labour purchased'*.

Smith's conceptual confusion resulted from the fact that having failed from the outset to grasp the social nature of the process of 'exchanging' labour in a commodity economy, he mistook it for the market 'exchange,' or purchase and sale of labour. He took labour as a *social function* to be the same as the labour which functions as a *commodity*. Yet if labour acts as an article of purchase and sale, can it really serve as a measure of value? Does not *the value of labour itself change* thanks to the fact that a given quantity of labour will be able to purchase a greater or lesser amount of commodities (depending upon fluctuations in the wages paid to 'labour')? To get out of this difficulty Smith puts forward his famous proposition that 'equal quantities of labour, at all times and places, may be said to be of equal value to the labourer'.[5] However many commodities the worker may be able to exchange a day of labour for, this day's labour will always mean that he has to sacrifice the same amount of 'his ease, his liberty, and his happiness'.[6] Should he today be able to exchange a day's labour for twice as much cloth as he could last year, this merely shows that the value of cloth has fallen. The value of the labour itself has not changed, and cannot change, since *the subjective assessment of the effort of labouring remains unaltered*. But in that case, the objective quantity of labour purchased in exchange for a given commodity can be taken as an exact measure of that commodity's value. We need only establish that a given commodity previously purchasable with one day's labour can now only be bought with the labour of two days, to be convinced that the value of this commodity has doubled Two days' labour at all times represents twice the subjective effort and strain compared with the labour of a single day, even if that two days' labour now affords no more commodities (or wages) than one day's labour did before The distinctive feature of Smith's theoretical confusion between objective and subjective factors (a confusion in which objective factors tend to dominate) is as follows: in order that an objective quantity of labour purchased may preserve its role as the invariable measure of value, Smith has to claim that subjective assessments of the efforts of labouring are also invariable

Previously Smith had mistakenly turned labour as a social function into labour as a commodity, and had taken 'labour purchased' as an invariable measure of value. Now, in order to be rid of the constant fluctuations in value inherent in labour being itself a commodity, he substitutes for the objective quantity of labour purchased the total subjective strain and effort that this labour elicits. The confusion of labouring activity as a *social function* with labour as a *commodity* (i.e., with 'labour purchased'); the confusion of the '*materialized labour* purchased' with the '*living labour* purchased'; finally, the confusion of the *objective* quantity of labour with the total *subjective* effort and exertion—these conceptual confusions are the price that Smith had to pay for having directed his investigation along the methodologically false path of looking for a measure of value.

Thus far we have been discussing Smith's doctrine of the measure of value Parallel with this confused and error-ridden train of thought, however, there is another, more valuable and promising theoretical thread which is directed at analyzing the *causes of quantitative changes in the value* of commodities These two theoretical paths constantly cross one another. Although at the beginning of his analysis, in Chapter 5, Smith's thinking is mostly taken up with the quest for a measure of value, he constantly comes up against the fact that the value of commodities really does change; compelled to inquire further into the causes of such changes, he unhesitatingly deems that cause to be a change in the quantity of labour *expended* on a commodity's production Especially interesting are Smith's remarks on why money cannot be taken as an invariable measure of value. 'Gold and silver, however, like every other commodity, vary in their value'; it is thus obvious that 'the quantity of labour which any particular quantity of them can purchase or command' also changes. But when the question is put, why has the value of gold and silver (i e , the quantity of labour which they can *purchase*) changed, the answer forthcoming is unequivocal: because there has been an alteration in the quantity of labour *expended* on their production 'As *it cost less labour* to bring those metals from the mine to the market they could *purchase or command less labour* ' It is quite obvious that Smith is combining here the concepts of 'labour purchased' and 'labour expended' The first is a measure or index of the magnitude of a commodity's value, the second is the cause of quantitative changes in its value [7]

At the start of Chapter 8, Smith sees changes in the value of commodities as a direct consequence of 'all those improvements in its [labour's—*Trans*] productive powers, to which the division of labour has given occasion All things would gradually have become cheaper and cheaper *They would have been produced* by a smaller quantity of labour; and naturally would have been *purchased* likewise with the produce of a smaller quantity '[8] Once a smaller quantity of labour begins to be expended on the production of a certain commodity so, too, must fall the quantity of labour which this commodity will purchase when exchanged A change in the quantity of '*expended* labour' is consequently a *cause* of changes in the quantity of '*purchasable* labour', hence also of changes in value, of which this latter acts as a *measure* or index The value of a commodity *is determined* by the labour *expended* on its production, and *is measured* by the labour which it will *purchase* in the course of exchange

Thus Smith is now determining the value of the commodity in two ways: 1)by the quantity of labour *expended* on its production, and 2) by the quantity of labour which the given commodity can *purchase* through exchange Do these two definitions not contradict one another? From a *quantitative* point of view there are definite *social conditions* under which the two will *coincide* Suppose that we have a society of *simple* commodity producers or craftsmen who own their own means of production Each of them will exchange the product of ten hours of his own labour (e g., cloth) for the product of ten hours labour (e g , a table) performed by somebody else It will be as if he is purchasing a quantity of another person's labour (materialized in the table) exactly equal to the quantity of labour he himself expended on the production of his cloth In this case we can say that it makes no difference whether the value of the cloth is determined 1) by the quantity of labour expended on its production or 2) by the quantity of labour which it can purchase when exchanged The quantity of 'expended labour' coincides completely with the quantity of '(materialized) labour that can be purchased' In a simple commodity economy labour performs a *two-fold* function: 'labour purchased' serves as a *measure* of the value of products while 'labour expended' *regulates the proportions* in which commodities are *exchanged*. '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 '[9] In 'early' society, which in essence means simple commodity economy, the exchange of products is subject to the *law of labour value*

Up to this point these two strands of Smith's analysis—the one leading from the measure of value to purchased labour, the other from the source of changes in value to expended labour—ran parallel and could be reconciled since, under conditions of a simple commodity economy, the (materialized) labour that is purchased is *equal* to the labour that has been expended Smith, however, did not confine his study to a simple commodity economy, being interested first and foremost in the capitalist economy developing around him. The *'handicraft'* motif in his theory of value is accompanied by a *'capitalist'* motif. If the commodity is a means by which the craftsman can acquire the *product* (or *materialized* labour) of another person, for the capitalist it is a means of acquiring another person's *living labour*. Smith remembers full well that under capitalism the hired labourer receives only a part of the produce of his labour, and that hence a smaller quantity of materialized labour (the commodity) is being exchanged for a greater quantity of living labour (labour power). For the product of ten hours labour the capitalist may receive twelve hours of living labour from the workers. It therefore follows that the quantity of labour *expended* on a commodity's production is no longer *equal* to the quantity of living labour which that commodity will *purchase* in exchange. In a capitalist economy the two determinations of value, which had coincided under conditions of simple commodity production, now sharply diverge. Smith, therefore, now has to make a firm choice: the value of a commodity must be determined *either* by the labour expended on its production, *or* by the (living) labour that it can purchase in exchange. Instead of adopting the first, correct standpoint Smith draws exactly the opposite conclusion He holds fast to his earlier view that the value of a product is determined (or measured) by the quantity of (living) labour that it will *purchase* when exchanged. But since this quantity of labour *exceeds* the quantity of labour expended on a given product, 'labour *expended*' can *no longer act* as a regulator of the value of products, as it did under a simple commodity economy. *The law of labour value ceases to operate in capitalist society*.

If this is so, what, then, determines a product's value in a *capitalist* economy? Suppose that a capitalist advances a capital of 100 pounds for the hire of labourers (Smith assumes that the entire capital is spent on hiring labour power and ignores outlays on fixed capital*), who in turn produce for him commodities with a value of £120. How is the value of these commodities determined (measured)? As we already know, by the quantity of (living) labour which the capitalist can buy with them when they are exchanged. Out of the total £120 the capitalist can purchase, first of all, *the same amount of the labour* of hired workers as was *expended* on the manufacture of the commodities in question (i.e., £100, or the sum of their wages); second, he can purchase an *additional* quantity of labour with the £20 that are left over and which constitute his profit. As a result, the value of the commodities is no longer determined (measured) by the quantity of labour expended on their production (in fact, Smith now substitutes 'paid labour', i.e., wages or 'the value of labour', for expended labour). The value of the commodities is now large enough to pay in full for the labour *expended* on their production and, on top of this, to yield a certain mass of *profit*. In other words, in a capitalist economy the value of the commodity is defined as *the sum of wages plus profit* (and, in certain circumstances, also plus *rent*), i.e., as the sum of its '*costs of production*' taken in the broad sense of the term. Smith here abandons the terrain of the labour theory of value and replaces it with the *theory of production costs*. Previously Smith defined the value of a commodity by the quantity of labour expended on its production; now he defines it as the sum of wages, profit, and rent. Earlier Smith stated that the value of a commodity *resolves itself* into revenue (wages, profit, and rent); now he says that value *is composed of* revenues, which therefore now function as the 'sources' of a commodity's exchange value. *Revenues* are what is *primary* and given, while the commodity's *value* is seen as *secondary* and derivative, made up by adding together the separate revenues. The *magnitude* of a commodity's *value* depends upon the 'natural rates' of *wages, profit, and rent* [10]

*See below, Chapter Twenty-Four

Summing up Smith's trend of thought, one can say that his theory of value suffers from the fundamental defect of a *duality* in his overall methodological approach. His analysis of the *causes* of changes in value leads him to a concept of 'expended labour'; his search for a *measure* of value, deriving as it does from an individualist understanding of the division of labour, leads him to a concept of 'purchased labour'. What is more, these two concepts of labour are each viewed from their objective and subjective aspects, although primarily from the former. In addition, the concept of 'labour purchased' is itself bifurcated, figuring on most occasions as 'materialized labour purchased' (the exchange between simple commodity producers, or an exchange of commodity for commodity), on others as 'living labour purchased' (an exchange between the capitalist and worker, or the exchange of a commodity as capital for labour as labour power). Insofar as it is the first, 'craft' motif which predominates, labour purchased is acknowledged as being equal to the labour expended, and it makes no difference whether the commodity's value be determined by the one or the other. Here Smith is operating with a labour theory of value, so that the parallelism and reconcilability of these two strands of his theory hides his methodological dualism. As soon as the 'capitalist' motif comes to the fore, however, the two analytical paths and the two concepts of labour markedly diverge. In a capitalist economy the labour materialized in the commodity exchanges for a larger quantity of living labour; it is an exchange of non-equivalents, and Smith is unable to explain it from the standpoint of labour value. By preserving for 'labour purchased' its former role as measure of value, Smith must then give up acknowledging 'expended labour' as the regulator of the proportions of exchange. The commodity's value depends now no longer upon the 'labour expended' but on the size of the incomes of the various participants in production (i.e., on wages, profit, and rent). Though the idea of labour value is one of the basic motifs in Smith's thought, he did not take it through to its conclusion, and when applying it to capitalist economy he replaced it with the *theory of production costs*. Smith's labour theory of value was dashed upon the rocks: for it was impossible to make it accord with the *exchange of materialised labour for living labour* (or capital for labour).

So long as Smith kept within the bounds of a simple commodity economy, the contradictory elements which his theory concealed (the regulator of changes in value and measure of value, expended labour and purchased labour, materialised labour purchased and living labour purchased) could still maintain themselves in some sort of unstable equilibrium As soon as Smith extended his analysis to capitalist economy, however, this unstable equilibrium was destroyed and the dualistic character of Smith's constructs emerged into the full light of day Each of the different aspects of Smith's doctrine was taken over and developed by later economic schools Ricardo developed one side of Smith's theory when—with utmost consistency—he defined the value of a commodity by the labour expended on its production Malthus developed another aspect of the theory and defined the value of commodities by the labour which they can purchase in exchange The same fate befell Smith's theory (also infused by a dualism) on the relationship between the value of a product and the incomes of those taking part in its production The idea that the value of a commodity *resolves itself* into wages, profit, and rent formed the basis of Ricardo's theory, who then liberated it from its internal contradictions Smith's error on this question—his attempt to derive the value of the commodity *from incomes* (wages, profit, and rent)— was taken over by Say, who developed it into the theory of 'productive services'. Here, as elsewhere, the truly valuable kernel in Smith's ideas was subsequently to be developed by Ricardo, Rodbertus, and Marx, while its collateral offshoots were exploited by the so-called 'vulgar' economists

1 The Russian text reads '*ob ekt ili predmet*, both of which in this case mean the object of an investigation or study

2 At the close of Chapter 4 of Book 1 Smith describes how he will proceed in his ensuing analysis of value:

'In order to investigate the principles which regulate the exchangeable value of commodities, I shall endeavour to shew

First what is the real measure of this exchangeable value; or wherein consists the real price of all commodities

'Secondly what are the different parts of which this real price is composed or made up

And, lastly, what are the different circumstances which sometimes raise some or all of these different parts of price above and sometimes sink them below their natural or ordinary rate; or what are the causes which sometimes hinder the market price that is the actual price of commodities from coinciding exactly with what may be called their natural price ' *Wealth of Nations* Book I Ch 4 p. 46

3 *Ibid* Book I Ch 5, p 48 Rubin s italics

4 *Ibid* Book I Ch 5 p. 51 'But though equal quantities of labour are always of equal value to the labourer yet to the person who employs him they appear sometimes to be of greater and sometimes of smaller value He purchases them sometimes with a greater and sometimes with a smaller quantity of goods and

to him the price of labour seems to vary like that of all other things It appears to *him dear in the one case* and cheap *in the other. In reality,* however it is the goods which are cheap in the one case and dear in the other '

5 *Ibid* Book I Ch 5. p 50

6 *Ibid* Book I Ch 5 p 50

7 The passages quoted in this paragraph are all from *ibid* Book I, Ch 5 pp 49-50 Rubin's italics.

8 *Ibid*, Book I Ch 8 p 82 Rubin s italics

9 *Ibid* Book I, Ch 6 p 65

10 The discussion to which Rubin is referring appears in Book I, Ch 7 p. 72: These ordinary or average rates may be called the natural rates of wages profit and rent at the time and place in which they commonly prevail

When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land the wages of the labour and the profits of the stock employed in raising preparing and bringing it to market according to their natural rates, the commodity is then sold for what may be called its natural price '

CHAPTER TWENTY-THREE

The Theory of Distribution

For all the inadequacies and contradictions in Smith's theory of distribution—which it fell to Ricardo and Marx to rectify—it still has one great merit: Smith correctly depicted the *division of classes* and *forms of revenue* characteristic of the capitalist economy. Smith holds that contemporary society is divided into these basic classes: *entrepreneur capitalists, wage labourers,* and *landowners*, a division that is scientifically accepted even in our own day The basic forms of revenue he takes to be *profit, wages, and land rent* To fully appreciate the inventiveness of this division of classes and incomes, which today seems common knowledge, we need only compare Smith's doctrine with that of the Physiocrats.

Quesnay had divided society into *three* classes: landowners, cultivators (the productive class), and merchants and industrialists (the sterile class) This scheme confuses class divisions with the difference between branches of production (agriculture and industry) Turgot improved upon this schema substantially by dividing each of these latter two classes again into two This gave a *five-fold* division of landowners, agricultural entrepreneurs (farmers), agricultural workers, industrial entrepreneurs, and industrial workers * In Turgot's schema the division of classes coincides with the division between branches of production Smith took the second and fourth classes and combined them together into a single class of *capitalist entrepreneurs* In similar fashion he amalgamated the third and fifth classes in a single class of *wage labourers*. Once again we had a *tripartite* division, but one in which the Physiocratic counterposition of agriculture to industry had been removed and the class contradiction between capitalist entrepreneurs and wage labourers became revealed (as it had also been by Turgot) in its full clarity

Of still greater importance is Smith's systematic *classification of revenue*. The Physiocrats for all intents and purposes knew only two

*See above Chapter 13

types of income: land rent (net revenue) and wages.[1] In their constructs entrepreneurial profit does not exist, but is resolved either into a replacement for capital or into the necessary means of subsistence (i e., wages) of industrialists, farmers, and merchants. Capitalist profit is equated with wages or, to put it more accurately, both these forms of revenue are conceived as being of the same order as the income or 'subsistence' of the independent craftsman

To *ignore profit* in this way, while it reflected the backward state of capitalist development in 18th century France, would have been impossible in more highly developed England. The English mercantilists had already devoted a great deal of attention to profit, although they knew it primarily as profit on trade. The successes of industrial capitalism found their expression in Smith's scheme, where *industrial profit* taken in the broad sense of the term (including the profit of farmers) figures as the basic form of revenue The other form of income that had preoccupied mercantilist thinking, *interest on loans*, is subsidiary for Smith: interest is merely that part of profit which the industrialist pays to the lender for the use of the latter's capital.

In singling out *profit* as a special form of income Smith is careful to delimit it from *wages*. He argues against the view that 'profits are only a different name for the wages of a particular sort of labour, the labour of inspection and direction.' The volume of profits depends upon the size of the capital invested in a business and not upon the labour that the capitalist might expend on supervision. Hence 'profits are altogether different, are regulated by quite different principles' than wages [2]

On the other hand Smith distinguishes workers' wages not simply from the *profits* of the capitalist, but also from the income of the *craftsman*. Handicrafts were still important in 18th-century England, and it is only natural that the example of the craftsman should often figure in Smith's arguments Yet Smith was also greatly impressed by the gains made by industrial capitalism (which he tended even to overstate), and he maintained that 'such cases [when an 'independent workman' manufactures a product solely at his own expense—*I R*] are not very frequent, and in every part of Europe, twenty workmen *serve under a master* for one that is independent ' Thus 'the wages of labour are everywhere understood to be, what they usually are, when the labourer is one person, and the owner of the stock which employs him another '[3] In the strict sense, wages are to be understood as the income of the worker who has been deprived of his means of production, and not that of the workman (craftsman) still in possession of them. Obviously Smith is counting as workers not simply the relatively small number at that time working in large-scale manufactories, but also the cottage labourers working on orders from buyers up-putters out: Smith often portrays industrialists as people who supply the workers with 'the materials of their work' [4]

Smith, then, does not do what Quesnay did and identify profits and wages with the income (subsistence) of the craftsman; his mistake is in the opposite direction. He declares that the revenue of the craftsman (and peasant) includes both wages and profit, when in fact this undifferentiated income of the petty independent producer is unique in character and distinct from these other two forms.

The error that Smith made in transferring the categories of capitalist economy to the forms of economy that preceded it in no way diminishes the merit due to him where the theory of capitalist society is concerned. Smith correctly understood the class structure of that society and its characteristic forms of revenue. By separating profit off as a special form of revenue Smith took a major step towards formulating *the problem of surplus value*. The mercantilists had known surplus value only as *commercial profit*, extracted out of the process of circulation via the non-equivalent exchange of commodities. The Physiocrats, although having sought the origin of surplus value in production, understood it only as *the rent of land*. Because Smith singled out profit and understood that it makes up the capitalist's net income over and above compensation for his costs of production, he linked the problem of *industrial profit* to the problem of *surplus value*.

The Physiocrats were concerned only with the origin of ground rent, since from their point of view this was the one and only form of net income. Smith, by making profit part of revenue, *widened the problem of surplus value*. From a problem of *rent*—which it had been with the Physiocrats—it became a problem of the origin of *all forms of income over and above what goes to labour*: the rent of land, profit, and interest [5] The question receiving priority was that of the origin of *profit*. Smith correctly regarded *interest* as part of profit. As for *rent*, here Smith was strongly influenced by Physiocratic doctrine, and his explanation was extremely feeble and suffered from glaring contradictions. Smith looked for the source of rent: 1) sometimes in the *monopoly price* of agricultural produce, which price was accounted for by the constantly high demand for such goods; 2) sometimes in the *physical productivity of the land*, which 'produces a greater quantity of food than what is sufficient to maintain ... [and] to replace the stock which employed that labour, together with its profits'; and 3) sometimes in the *labour* of agricultural workers [6] Rent, therefore figures in Smith sometimes as a 'monopoly' payment or mark-up over and above the value of agricultural produce, sometimes as 'the work of nature which remains after deducting or compensating every thing which can be regarded as the work of man', [7] and sometimes as 'a share of almost all the produce which the labourer can either raise, or collect' [8] and which is given over to the landlord by virtue of his monopoly proprietorship This last explanation, which accords with the idea of labour value, figures only fleetingly in Smith's theory of rent

The concept of labour value forcefully asserts itself in Smith's *theory of profit* The question of the origin of profit as an independent form of revenue had inevitably to lead Smith beyond the bounds of the Physiocratic theory of surplus product The physical productivity of nature may have still been adequate to explain the origin of rent as a margin of surplus value which agriculture yields over and above total profits, but this explanation was clearly no longer applicable to profit, which is the normal and most often encountered form that surplus value takes Certainly it is not just within agriculture that profit accrues, but also in industry, where in Smith's view 'nature does nothing; man does all' * It is obvious that the source of profit must be sought in *human labour* The problem of *surplus value* (revenue) which had been posed by the Physiocrats, was now tied directly to the *labour theory of value* outlined by the mercantilists It is one of Smith's greatest merits to have made this synthesis

Actually, for all the contradictions in his theory of profit and the gaps in his understanding, Smith was quite clearly disposed to the view that profit is that *portion of the value of the product* which the capitalist appropriates for himself '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 '[9] But once the land has been appropriated as private property and there is an 'accumulation of stock', one part of the product of the worker's labour goes as rent to the landlord and another to the capitalist as profit Where does this 'accumulation of stock' come from? Smith, in the

* In fact even industrial labour requires the assistance of the forces of nature Smith s view to the contrary is characteristic of the manufactory period when there were no machines and manual labour predominated However, it seems possible that what is essentially a false notion had a beneficial hand in Smith's development: for it allowed him to transcend Physiocratic doctrine and to locate the source of value and surplus value not in nature but in human labour [The quoted phrase is from Book II Ch 5 p 364-*Ed*]

spirit of all the ideologists of the nascent bourgeoisie, offers the following explanation: the more industrious and prudent persons, rather than spending the full produce of their labour, 'saved' part of it and gradually accumulated capital Capital is what its owner or his forefathers 'saved' out of the product of their labours 'Capitals are increased by parsimony, and diminished by prodigality and misconduct.' 'Parsimony and not industry, is the immediate cause of the increase of capital.' It was Marx who, with his picture of primitive capital accumulation through commercial monopolies, the plundering of colonies, the displacement of the peasantry from its land, the exploitation of cottage labourers and workers, etc., overthrew the naive myth, so long dominant in bourgeois science, that *the origin of capital lies in 'parsimony'*

Despite the naivete of Smith's doctrine of the origins of capital, he firmly grasps that in a society where this 'accumulation of stock' has already taken place the mass of the population, deprived of means of production (here taken in the broad sense to include also the means of subsistence to sustain the worker while labouring),[10] becomes immediately dependent on those fortunate individuals whose 'parsimony' has allowed them to accumulate capital 'The greater part of the workmen stand in need of a master to advance them the materials of their work, and their wages and maintenance till it be compleated. He shares in the produce of their labour, or in the value which it adds to the materials upon which it is bestowed; and in this share consists his profit '[11] Profit is a *'deduction from the produce of labour'*, which the capitalist appropriates as his own For their part, the workers are compelled to accede to such a 'deduction', since without a master to invest capital in a business they possess no means either to manage a business of their own or to maintain themselves while they are working

Smith thereby recognises *labour* to be the source of *value* of the entire product, including that portion of value which accrues to the capitalist as *profit* As we saw in the preceding chapter, however, Smith proved unable to work the idea of labour value through to the end It is therefore understandable that his theory of distribution is likewise only incompletely thought out and plagued with major contradictions We saw that in Smith's view the labour expended on a product's production becomes, in capitalist society, no longer the regulator of that product's value: its value, or 'natural price', is defined as the sum of the natural wage, natural profit, and natural rent The level of wages, profit, and rent are taken as the primary, or given factors, and the product's value as the result of adding these three quanta of revenue together. The theory of *production costs* is put in the place of the *labour theory of value*.

Smith's *theory of distribution* similarly undergoes a certain change. Previously it had been correctly constructed on the basis of the *theory of value*. Later, however, it is the *theory of value* that is based on the *theory of distribution*. It thus becomes impossible to explain wages and profit as part of the product's value, for the latter can now be explained only after we have determined the level of its 'component parts', i.e., wages and profit. Were Smith fully consistent he would have to conclude (as Ricardo was to do) from his statement that profit is a 'deduction' from the product's value, that the share of profit can rise only when there is fall in the share of wages. Now, however, he maintains that a rise in profit serves only to increase the value of the product, but has no reflection upon wages. With a theory of distribution such as this the investigator must first of all find the natural level of *wages and profit*, so that these can then be used to determine the value of the product. Smith does just that, and attempts to explain wages and profit *independently from the theory of value*—an attempt doomed to failure.

What is it that determines the absolute level of *profit*? Smith does not even venture an answer to this question, and limits himself to trying to explain its *relative* upward and downward fluctuations. Smith distinguishes between the *progressive, stationary, and regressive* states of a nation's economy. The first is characterized by the accumulation and multiplication of the overall mass of a country's capital; in the second total capital maintains itself at its previous level; and in the third the capital is declining and the country is on the road to ruin. In the first situation, capital is abundant, and this causes profits (and interest) to *fall*, while wages *rise* thanks to the competition amongst capitalists for hands. This for Smith explains the *fall in the average rate of profit* observed in Europe from the 16th to 18th centuries. It is only in the young and rapidly advancing colonies with their free virgin land and their shortage of both labourers and capital that wages and profit can *simultaneously* exist at a *high* level. When a society is stationary the market for both capital and labour is completely saturated; thus both profit and wages establish themselves at a very *low* level. Finally, when a society is regressing or in a state of decline, the shortage of capital causes the rate of profit to *rise* and wages to *fall*. The superficiality of Smith's argument limits him to explaining fluctuations in the level of profit from the *abundance or scarcity of capital*.

More successful is Smith's *theory of wages*, which contains a number of apt and accurate remarks and observations. What gives this theory its special appeal is the deeply felt sympathy for the workers that Smith shows on every page. Nevertheless, from a theoretical point of view Smith's theory of wages also suffers from inconsistencies and contradictions.

The so-called *iron law of wages* enjoyed almost universal acceptance among economists of the 17th and 18th centuries. It was enunciated in most clear-cut fashion by the Physiocrats,* who argued that as a general rule the level of wages does not exceed the minimum means of subsistence required to maintain a worker and his family. Smith is reluctant to subscribe fully to this assertion which in his view does not correspond to actual facts. From the 17th to the mid-18th centuries the wages of English workers had been going up, and by Smith's time had reached a level which clearly exceeded what Smith considered the minimum level of means of subsistence. How was this rise in wages to be explained? Smith accounts for it in the same way as he explains the fall in the rate of profit for the period from the 16th to the 18th centuries: economic prosperity and the accumulation of capital create a greater demand for labourers. *The rapid accumulation of capital* (and not its absolute volume) demands a greater number of hands: *high wages* will make it possible for the workers to raise more children, which must in turn cause the level of wages to establish itself at precisely that level at which the rate of population increase more or less corresponds with the rate of growth in the demand for labour. A stagnant economy will be different. When the capital advanced on the hire of workers remains stationary the existing number of workers proves sufficient to satisfy the demand for labour, and 'the masters [would not] be obliged to bid against one another in order to get them' [12]. *Wages will fall to the minimum level of means of subsistence*, the population will reproduce itself at a slower rate, and the size of the working class will hold steady at this particular level. Finally, when a country is in decline and 'the funds destined for the maintenance of labour [are] sensibly decaying', the demand for workers will steadily decline and wages will fall *below* the established minimum 'to the most miserable and scanty subsistence of the labourer' [13]. Poverty, famine, and mortality would reduce the size of the population to what the now reduced volume of capital would require.

* See above. Chapters Three and Thirteen.

Thus the level of real wages will depend on the relationship between the supply and demand for labour, in other words, *upon the rate of growth of capital* or the fund advanced for the hire of workers Smith, then, is advancing an embryonic version of the theory of the *wage fund*, which was to become so popular among bourgeois scholars * However, he still confuses the idea of a wage fund with the notion that wages will gravitate towards *the minimum level of means of subsistence* 'A man must always live by his work, and his wages must at least be sufficient to maintain him They must even upon most occasions be somewhat more; otherwise it would be impossible for him to bring up a family and the race of such workmen could not last beyond the first generation '[14] Yet we have seen that Smith believes that wages will really only gravitate towards subsistence level when the volume of capital and the demand for labour are *stationary* When there is expansion wages will *rise above* this level; when there is a contraction they will fall *below* it Obviously Smith himself thought that a drop in wages below the subsistence level would be but a temporary and transient occurrence, since poverty and mortality would soon bring the number of workers into correspondence with capital's reduced labour requirements On the other hand, Smith also believed that there could be a *long-term rise* in wages over and above the minimum of means of subsistence—so long, that is, as high wages did not encourage the workers to reproduce themselves faster than the increased labour requirements of accumulating capital This faith in the prospect of long-term improvement in the workers' welfare (which was partially evoked by the fact that the wages of English workers had actually risen from the 17th to the mid-18th centuries) distinguished Smith's optimistic world view from the pessimistic views of his followers, for instance, Ricardo

For all his optimism Smith acknowledged that even when society was advancing, wages would not rise above the minimum required to bring the growth of the working population into line with capital's *demand for labourers*. This is a matter over which the capitalists will show equal concern: because they are *few in number* and hence can easily reach agreement amongst themselves, because they are protected *by the law*, and because the workers *cannot exist* without work for any but the briefest periods, they enjoy in any struggle with the workers a *social superiority of forces* that they can always use to drive down wages to that level beyond which the existing state of capital

*See below Part V Chapter Thirty-Four

and wealth (i.e., whether it is progressing, stagnant, or declining) does not allow them to be driven any further. This recognition of the capitalists' social superiority of forces does not, on the other hand, lead Smith to conclude that the workers must struggle with them to improve their own social position, i.e., utilise strikes, or form trade unions. However much Smith may sympathize with the workers' needs, he does not believe that combinations of workers could improve their lot: in an advancing society they would be superfluous, as purely economic factors would by driving up wages in any case; if society is stagnating or in decline they would not be strong enough to stave off a fall in wages. Smith's *underestimation of the importance of workers' associations* reflected the infant state of the workers' movement during his epoch. At the same time it harmonized with his general views to the effect that economic life had to be left to the free play of individual *personal interests*.

1 We have translated Rubin's term *zemel'naya renta* variously as 'ground rent' (or 'land rent') which is its more precise meaning, and as 'the rent of land', the terminology actually used by Smith, when dealing with rent as an economic category that specifies the social relation that the landlord class bears to the other classes of society. Smith's specific discussion of ground rent appears in Book V.

2 *Wealth of Nations*, Book I, Ch. 6, p. 66.

3 *Ibid.*, Book I, Ch. 8, p. 83. Rubin's italics.

4 *Ibid.*, Book I, Ch. 8, p. 83.

5 Rubin's phrase is actually '*chistyi ili netrudovoi dokhod*', which literally means 'net, or unearned (non-labouring) income.' However, in the context in which it appears this rendering would not convey the full sense of labour being the sole *source* of value.

6 The quotation is from Book I, Ch. 11, pp. 162-63. Of the first source of rent Smith says, 'There are some parts of the produce of land for which the demand must always be such as to afford a greater price than what is sufficient to bring them to market; and there are others for which it either may or may not be such as to afford this greater price. The former must always afford a rent to the landlord. The latter sometimes may, and sometimes may not, according to different circumstances.' (Book I, Ch. 11, p. 162.) What Rubin describes as Smith's third source of rent is discussed by Smith as follows: 'But when by the improvement and cultivation of land the labour of one family can provide food for two, the labour of half the society becomes sufficient to provide food for the whole. The other half, therefore, or at least the greater part of them, can be employed in providing other things, or in satisfying the other wants and fancies of mankind.'

'Food is in this manner not only the original source of rent, but every other part of the produce of land which afterwards affords rent, derives that part of its value from the improvement and cultivation of labour in producing food by means of the improvement and cultivation of land (Book I Ch 11 pp 180 & 182)

7 *Ibid* Book II. Ch. 5 p 364

8 *Ibid* Book I, Ch 8 p 83

9 *Ibid*, Book I, Ch 8 p 82

10 Rubin means that workers without their own means of subsistence are deprived of the means of production of the commodity labour power

11 *Wealth of Nations*, Book I, Ch 8. p. 83

12 *Ibid* Book I, Ch 8 p 89

13 *Ibid* Book I, Ch 8 pp 90-91

14 *Ibid* Book I. Ch 8 p 85

CHAPTER TWENTY-FOUR

The Theory of Capital and Productive Labour

Smith, as we have seen, considered profit, rather than rent, to be the primary form of net income (surplus value). But Smith also thought of profit as the 'revenue derived from stock' Thus it comes as no surprise that Smith had a far broader and more correctly worked out *theory of capital* than did the Physiocrats His merit is that 1) he broadened the concept of capital beyond the sphere of agriculture to include *industry* as well, and 2) he drew a direct connection between the concepts of capital and *profit*

Influenced by Rodbertus and Adolf Wagner, bourgeois economists often distinguish between two concepts of capital: a '*national* economy' concept and a '*private* economy' concept [1] The first refers to the sum total of the produce of society's labour to be used in future production; the second refers to any sum of value that yields its owner a steady unearned income The first concept of capital derives from a one-sided, material-technical standpoint, namely that capital is the means of production that are in existence, irrespective of their social form; hence the foolish conclusion often encountered in the arguments of the Classical economists and their epigones that the primitive hunter is a 'capitalist' by virtue of his possessing a bow and arrow In contrast, capital in the second sense separates the concept from the material process of production, thus leaving unanswered the question as to where the capitalist draws his unearned income from

Here as elsewhere Smith should be considered the progenitor of both concepts of capital Smith holds that an individual's property (providing it is sufficiently large) will divide up into two parts 'That part which, he expects, is to *afford him this revenue*, is called his *capital* The other is that which supplies his immediate consumption '[2] Capital is property which bears its owner a flow of unearned income, in the form of profit. The main value of this definition is that it links the concept of capital directly to the concept of profit

Yet Smith understands that he cannot limit himself to defining capital in terms of the '*private economy* ' According to this definition a private house when rented out constitutes capital to its owner; it is equally obvious, however, that when the same house is used directly by its owner 'it cannot yield any [profit] to the publick, nor serve in the function of a capital to it' [3] In view of this, alongside the aforementioned definition, Smith often talks about capital in terms of the *'national economy'*, i e., in a material-technical sense, whereby he understands it as an *'accumulated stock of produce'* for use in *future production*, namely 1) the raw materials needed for the work, 2) the implements of production and 3) means of subsistence for the workers

Smith is *unable to reconcile* these two definitions of capital because, owing to the confusions within his own theory of surplus value, he cannot trace out how the capital invested in agriculture, industry, and trade (Smith mistakenly places the capital invested in commerce and exchange on an equal footing with productive capital invested in agriculture and industry) possesses the ability to bear a steady income in the form of profit The duality of Smith's views on capital reveals itself clearly in the fact that he sometimes understands capital correctly as the *total value* that the entrepreneur spends on purchasing machinery, raw materials, etc., but at other times mistakenly takes it to be the actual machines, raw materials, and the like *in natura*. This confusion of the material and technical elements of production (means of production as such) with their given social form (i.e., with their function as capital) is both a distinctive feature of Smith's theory of capital and a characteristic of the Classical school in general

This lack of clarity in Smith's theory of capital was reflected in his view that capital is divided into two types, *fixed* and *circulating*. We have already met up with the embryonic form of this theory in Quesnay, who made the distinction between *avances primitives* and *avances annuelles*.* Smith generalized these categories beyond agricultural capital to industrial capital (which was correct) and to commercial capital (which was wrong, inasmuch as the division between fixed and circulating capital applies only to productive and not to commercial capital) [4]

Now circulating capital differs from fixed capital according to the length of time it takes for it to circulate: the value of circulating capital (e.g., raw materials) is wholly restored to the factory owner out of the price of his product upon the completion of *a single production period*; the value of fixed capital (e.g., machinery), on the other hand, is restored only in part, being fully cancelled out only after *several*

* See above Chapter Thirteen

production periods have expired. Smith remained vague about this distinction. His attention was devoted to the *material* aspect of phenomena as things, to the actual machinery *in natura*, and not to their value. While the entire *value* of a machine enters into circulation, albeit slowly and bit by bit, the actual *machine* remains at all times in the possession of the factory owner until it has completely depreciated. Smith, noticing this, comes to the strange conclusion that no part of fixed capital *passes into circulation*: unlike circulating capital (raw materials, for example), which 'is continually going from him [its owner—*Trans.*] in one shape, and returning to him in another', fixed capital yields a profit 'without changing masters, or circulating any further'. [5] The incongruities to which such a definition leads Smith are visible from the way he is compelled to classify the value of the seed which the farmer keeps on hand for later sowing as fixed capital simply because it stays in the farmer's possession. Using the same definition Smith deems the commodities held by traders as circulating capital, though generally speaking they constitute commodity, or commercial capital, and not productive capital at all.

In his theory of capital Smith came very close to the problem of *reproduction*, including that of the relationship between *capital and revenue*. He formulated it in much broader terms than had the Physiocrats, understanding that the formation of *net income*—in the form of *profit*—also occurs within industry. However, the rest of his analysis of reproduction is full of the most flagrant errors.

As we have seen, according to Smith's theory, a portion of capital is expended on the purchase of implements of production (fixed capital) and raw materials (circulating capital). From this it would seem to follow that the value of the annual product of society as a whole must first and foremost go to replace the total capital expended; it is only what remains over and above this sum that constitutes society's revenue, which is then divided up between the three social classes as wages, profit, and rent (whereas wages figure simultaneously as a portion of the circulating capital, profit and rent make up surplus value, or net income). In certain passages Smith actually arrives at just such a correct understanding of the problem: 'The gross revenue of all the inhabitants of a great country, comprehends the whole annual produce of their land and labour; the neat revenue, what remains free to them after deducting the expence of maintaining; first, their fixed; and, secondly, their circulating capital; of what, without encroaching upon their capital, they can place in their stock reserved for immediate consumption, or spend upon their subsistence, conveniencies, and amusements.'[6] Thus, the value of society's annual product contains *not simply the revenue* going to each of society's classes (i.e., wages, profit, and rent), but also the fixed and circulating *capital* that is being reproduced

After coming so close to formulating the problem of reproduction correctly, Smith then begins to have his doubts What confuses him is the fact that a value which represents *capital* for one person, represents *revenue* for another. For the owner of a cloth-making factory the textile machinery he purchases represents fixed capital. Yet what he pays to the machine maker for it, and what the latter then disburses to his workers as wages constitutes income for the workers and a replacement of circulating capital for the machine maker Marx analyzed the complex intersection of these relatons between capital and revenue in Volume II of *Capital* There he examines the process of reproducing the social product from two aspects: that of its material elements (means of production and means of consumption), and that of the component parts of its value (the reproduced constant capital, wages, and surplus value) Smith, as we know, confused these two aspects—the material and the social—of the process of production; in his theory of surplus value he vacillates between various points of view, having no knowledge of the division between constant and variable capital that Marx was to introduce into science. As a result, Smith proved unable to provide a correct solution to the problem of reproduction and, to get around the doubts that confounded him, resorted to a very simplistic approach. He merely assumes that the value of the constant capital, textile machinery, for instance, can be *resolved in its entirety into revenue*, i.e., into wages plus profit (and rent) Granted, the value of the constant capital necessary to the manufacture of this machinery (e.g., iron) must in turn enter into that machinery's value; but the value of the iron once again consists of the wages of the workers who extracted and processed it, plus the profit of the entrepreneur, etc. What this argument actually shows is that at every stage of its production the value of the product contains not simply the incomes going to the participants in production (i.e. wages, profit, and rent), but equally a replacement of constant capital (machinery, raw materials, and the like) Smith, however, comes to precisely the opposite conclusion. He thinks that the value of constant capital resolves itself in the last instance purely into revenue: wages, profit, and rent. Consequently, the price 'of all the commodities which compose the whole annual produce of the labour of every country, taken complexly, must resolve itself into the same three parts, and be parcelled out among different inhabitants of the country, either as the wages of their labour, the profits of their stock, or the rent of their land '[7] While Smith has previously understood that a portion of society's annual product is designated to replace constant capital, he now arrives at the absurd conclusion, that *the entire value of the social product resolves itself exclusively into revenue*, entering, in other words, into the personal consumption of the individual members of society

This mistaken theory became ruling doctrine among the economists of the Classical school: Ricardo accepted it, Say turned it into a dogma, and John Stuart Mill was repeating it even in the middle of the 19th century *

For Smith, then, the value of a product consists of wages, profit, and rent. Now wages constitute what, in Marx's terminology, is variable capital; we can thus reformulate this statement as follows: *the value of the product consists of variable capital plus net revenue* (profit and rent). *The entire capital* is assumed to consist solely of *variable capital*. That part of a product's value making up the reproduced constant capital is totally forgotten. Yet how can the reproduction of the social product be understood if one ignores the reproduction of constant capital, which has such a great, and constantly growing importance in a capitalist economy? Clearly, Smith's erroneous notion that the value of a product breaks down into revenue mars his entire theory of reproduction. On this question he even lags behind Quesnay, who never for a moment forgot that part of the annual product goes to restore the depreciated portion of fixed capital

The errors that Smith made in analyzing the process of reproduction-in-general could not fail to find reflection in his understanding of expanded reproduction, that is, of capital *accumulation*. If the entire capital is spent as variable capital, on hiring labourers, the process of accumulation will obviously take place as follows: there is a part of the capitalist's revenue (i.e., his profit) that he does not spend on personal consumption, but adds to his capital, that is, he advances it for the hire of labour. *All capital that is accumulated is expended on the hire of labour*. This position is simply wrong, and once again ignores the fact that the capitalist must lay out part of his additional capital on the purchase of machinery, raw materials, etc.

Two important conclusions could have been drawn from this mistaken theory of accumulation. The first is that, because the entire capital is expended on the hire of labour, 'every increase or diminution of capital, therefore, naturally tends to increase or diminish the real quantity of industry, the number of productive hands.'[8] Consequently, *any addition to capital*, by calling forth a proportional increase in the

* See the chapter on Sismondi in Part V below

demand for labour, *works fully to the advantage of the working class*. The proponents of this argument have forgotten that in reality the demand for labour grows only in proportion to the rise in capital's variable portion, and not to the growth of capital as a whole The second conclusion is that *the accumulation of capital does not imply a cut in personal consumption for the members of society* If a capitalist accumulates half of a profit of £1,000, he is using £500 to hire workers *The capitalist is foregoing this much of his own personal consumption in favour of the personal consumption of the workers* 'What is annually saved is as regularly consumed as what is annually spent, and nearly in the same time too; but it is consumed by a different set of people,' i e , workers: 'The consumption is the same, but the consumers are different '[9] Insofar as Smith was directing these words against the primitive petty-bourgeois or peasant notion that capital accumulation means hiding gold coins away in a sock or a money box, he was correct Accumulated capital is certainly spent But it is spent not simply on hiring workers, but equally on the purchase of machinery, raw materials, etc Overall *personal* consumption falls in favour of *productive consumption*; the production of means of production rises *at the expense of* means of consumption Disregard for this fact laid the basis for the Classical *theory of markets* of Say and Ricardo; even opponents of this theory, like Sismondi, shared Smith's mistaken doctrine that the entire annual product of society goes to the personal consumption of its members *

Closely tied to Smith's theory of capital and revenue is his extremely interesting and valuable theory of *productive and unproductive labour* It was Smith's view, as we already know, that the entire capital is spent on hiring workers, i e , is made up of wages Does this mean that every single worker has his wages paid out of capital? No, says Smith, workers can receive their wages either from *capital* or from *net income* (profit and rent). A capitalist uses his capital to hire workers, who by means of their labour not only restore their wages, but provide on top of this a profit (surplus value) The capitalist can use his net income (i e , profit) either to buy various commodities or to purchase the labour of different workers to be used directly for his own consumption (a maid, a cook, a domestic tutor, etc) The labour of these people provides the capitalist with a definite use value yet yields no exchange value or surplus value. This constitutes the basis for distinguishing between productive and unproductive workers. *Productive* workers are those who *exchange their labour directly against capital*, *unproductive* workers are those who

*See the chapter on Sismondi in Part V below *exchange their labour directly against revenue*. To be sure, the capitalist can spend part of his revenue on hiring additional productive workers. But in that case he is converting a portion of his revenue into capital; he is accumulating or capitalizing it. As capital must yield a surplus value, we can formulate this statement another way: *productive* workers are those whose labour *yields surplus value*; *unproductive* workers are those whose labour is devoid of this property. 'Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing.'[10]

We can see how the concept of *productive labour* has changed with the evolution of the concept of *surplus value* (or net income). The only form in which the mercantilists had known surplus value was as *commercial profit* earned from foreign trade, flowing into the country as gold or silver. Hence for them the most productive labour was that of the *merchants and seamen* involved in foreign trade. The Physiocrats understood that surplus value was created in the process of production, but, by ignoring profit and identifying surplus value with *rent*, they came to the erroneous conclusion that only the labour of the *agricultural* population was productive. Smith, expanding the concept of surplus value to include also profit, thereby transcended the restricted concept of productive labour held by the Physiocrats. According to Smith's theory, *all wage labour*, be it agricultural or industrial, is productive when it is exchanged directly for *capital* and earns the capitalist a *profit*.

Smith is here deriving the distinction between productive and unproductive labour from their different *social forms*, rather than from their material properties. On the basis of the above definition, the labour of a servant ought to be deemed unproductive if a capitalist hired him for his personal services, and productive when employed by a capitalist running a large restaurant. In the first instance the employer relates to the servant as a consumer buyer, in the second as a capitalist buyer. Although materially speaking the servant's labour is identical in both cases, they each entail different social and production relations between people, productive in the one case and unproductive in the other. Here, however, Smith fails to reach such a correct conclusion and proves unable to differentiate labour's social form from its material content. Looking at what is actually going on around him Smith sees that the entrepreneur sometimes uses his capital to hire workers whose labour is embodied in material objects, or commodities, but at other times he uses his revenue to purchase personal services where this property of materiality is absent. From there he comes to the conclusion that productive labour is that which 'fixes and realizes itself in some particular subject or vendible commodity, which lasts for some time at least after that labour is past The labour of the menial servant, on the contrary, does not fix or realize itself in any particular subject or vendible commodity His services generally perish in the very instant of their performance, and seldom leave any trace or value behind them, for which an equal quantity of service could afterwards be procured '[11]

As we see, Smith is here giving us a *second* definition of productive labour, the defining characteristic of which is its ability to create *material objects*. Smith is obviously unaware that he is putting forward two definitions that do not fully concur with one another From the standpoint of the first, correct definition, the labour of the servant in a restaurant run on capitalist lines is *productive*; from the point of view of the second, incorrect definition, this labour will always be considered *unproductive*, since it is not embodied in any material objects By way of contrast, the labour of a gardener whom a capitalist keeps at his summer home to tend his plants is by the first definition *unproductive*, since that labour is purchased out of the capitalist's revenue and not out of his capital—in short, it is put towards his personal consumption and not to the production of surplus value. According to the second definition, the gardener's labour, because it leaves behind 'material' results in the form of flowers and plants, would always have to be considered *productive*

On this, as on other questions, we see Smith (and this is typical of the Classical school) *confusing the material-technical aspect of the production process with its social form* Wherever Smith is studying the social form of the economy he is discovering new perspectives and is one of the founders of contemporary political economy When he confuses the social form of the economy with its material-technical content he falls into innumerable errors and contradictions, of which his two definitions of productive labour offers but one example

The epigones of the Classical school, who directed their attention towards the material-technical side of production, paid no regard whatsoever to the first definition that Smith gave of productive labour, and embraced only his second, mistaken one. Some of them shared Smith's view of unproductive labour as that which is not embodied in material objects Others objected to it on the grounds that the labour of officials, soldiers, priests, etc., had also to be considered productive Yet neither the partisans nor the opponents of Smith's view in the least understood his truly valuable social definition of productive labour, which it fell to Marx to develop further.

1 The Russian text here reads *chistokhozyaistvennoe'* which means purely economic'. On the following page it reads '*chastnokhozyaistvennoe* ' or 'private economic.' As the first of these seems to make little sense in the context in which Rubin is using it we have—perhaps boldly—assumed it to be a misprint, and have translated it as 'private economic', to conform with the second term that appears in the text

2 *Wealth of Nations* Book II, Ch 1 p 279 Rubin s italics

3 *Ibid.* Book II Ch. 1 p. 281

4 In Volume II of *Capital* Marx distinguishes three different forms assumed by industrial capital, each characterized by its own formula of circulation: *Money capital*, whose basic formula is M—C P C'—M', i.e. money (M) is transformed into commodities (C—means of production and labour power) which function as *productive capital* (P), and out of which appear commodities of greater value which are finally transformed again into money (M', i e now a greater sum than before because it contains an increment of surplus value) Second there is *productive capital* which refers specifically to the form assumed by capital within the process of production Its circuit is P C'—M'—C . P That is, the process of production yields commodities augmented by surplus value and which are then sold for money If all of the surplus value is to go for the capitalist's personal consumption (i e is consumed as revenue) the commodities purchased to renew production (means of production and labour power) will be of the same value as before, and so we have C P (this is simple reproduction) If part of the surplus value is capitalized and used to purchase a greater value of means of production and labour power than represented by the original P at the beginning of the circuit we will as a result of this accumulation have at the end of the formula C P' Finally there is *commodity capital*, whose formula is C'—M'—C P—C Here we start with the total commodity-product as it emerges out of the process of production that is, containing both the original value of P plus surplus value This is then transformed into money capital which is used to purchase anew means of production and labour power These after functioning in the process of production yield a new commodity product C which also contains both the value of the original productive capital plus surplus value Marx s entire discussion of fixed and circulating capital revolves upon these distinctions for, as Marx emphasizes the distinction between fixed and circulating capital only has relevance *within the process of production* Smith s error, as Rubin discusses here was to confuse the circulation of *value* with the circulation of the material objects embodying that value Circulating capital is capital whose *value* completes the entire circuit of *productive capital* within a single production period Fixed capital is capital whose *value* traverses this same circuit only over a protracted period of time i e over several production periods Smith was thus led into the confusion of *circulating capital* (which is necessarily part of P) with *capital in circulation* that is with *commodity capital* (or what Rubin refers to here as commercial capital)

5 *Wealth of Nations* Book II, Ch. 1 p 279

6 *Ibid* Book II Ch 2 pp 286-87

7 *Ibid*, Book I Ch 6 p. 69

8 *Ibid*, Book II, Ch 3 p 337 Other passages on the same page make a similar point 'Whatever a person saves from his revenue he adds to his capital, and either employs it himself in maintaining an additional number of productive hands, or enables some other person to do so, by lending it to him for an interest 'Parsimony by increasing the fund which is destined for the maintenance of productive hands tends to increase the number of those hands

whose labour adds to the value of the subject upon which it is bestowed

9 *Ibid* Book II Ch 3 pp 337-38

10 *Ibid* Book II Ch 3 p 330

11 *Ibid* Book II Ch 3 p 330