

Serie de documentos de trabajo 14-01

Noviembre del 2014

ADAM SMITH'S CONCEPT OF LABOUR:  
VALUE OR MEASURE?

Adolfo Rodríguez Herrera

Escuela de Economía, Universidad de Costa Rica

# Adam Smith's concept of labour: value or measure?

Adolfo Rodríguez-Herrera\*

## Abstract

The terminology employed by Smith to refer to value and measure of value is used in his time with imprecision, which has led to different interpretations about his position on these issues. It is no coincidence that Smith is considered the father of the labour theory of value developed by David Ricardo and Karl Marx and simultaneously of the cost-of-production theory of value developed by John Stuart Mill and Alfred Marshall.

This paper reviews the concepts developed by Smith to formulate his theory of value –value, real price and exchangeable value– and the criticism made by Ricardo and Marx on Smith's position about the role of labour as measure of value. According to these authors, Smith is not consistent in proposing that the value of a commodity is defined or measured as the amount of labour necessary to produce it and simultaneously as the amount of labour that can be purchased by this commodity. After demonstrating that the interpretation made by Ricardo and Marx on Smith's arguments could be wrong, and that the criticized inconsistency of Smith's reasoning could not really exist, I will argue that Smith proposes labour as a measure of value because he conceives it as a source of value, so that it can be said that Smith holds a labour theory of value that substantially corresponds to the one later developed by Ricardo and Marx.

## Introduction

The way Smith approaches value and labour must be seen in connection with his studies on wealth and how to measure it. For Smith wealth has to be measured by its purchasing power. However, money does not accurately measure that power, since money itself has a variable purchasing power. As a solution to this problem, Smith formulates his idea that the purchasing power of wealth is measured by the quantity of labour that wealth allows its owner to impose on others. In this context he develops the concept of real price and the concept of value (whose magnitude depends on different amounts of labour), but their birth is marked by the ambivalence around the role of labour as a measure and source of wealth. The question "what is value" is often confounded by him with the question "how value is measured", which is directly related to the ambivalent role of labour in Smith's theory.

For example, at the end of chapter 4 of *The Wealth of Nations*, Smith says that to understand "the principles which regulate the exchangeable value of commodities", he "shall endeavour to shew first what is the real measure of this exchangeable value, or wherein consists the real price of all commodities."<sup>1</sup> The terms "measure of value" and "real price" in this phrase are used as if they represent the same concept. Something similar happens at the beginning of the next chapter, where Smith claims that "the value of a commodity" is equal to a certain amount of labour, and concludes that labour, "therefore", is "the real measure of exchangeable value of all commodities".<sup>2</sup> In this case the terms "value" and "measure of value", as in the other case the terms "real price" and "measure of value", are used as synonyms.

---

\*School of Economics, Universidad de Costa Rica, [adolfo.rodriguezherrera@ucr.ac.cr](mailto:adolfo.rodriguezherrera@ucr.ac.cr)

<sup>1</sup>Adam Smith [1776], I.iv.14-17, p. 42.

<sup>2</sup>Adam Smith [1776], I.v.1, p. 44.

This indiscriminate use of the terms “value”, “real price” and “measure of value”, gives rise to an ambiguity regarding the role that Smith attributes to labour. Does he consider it an external measure of value or *numéraire*, as can be gold or silver, or does he consider it (as Ricardo or Marx do) the foundation, the original source or the substance of value?<sup>3</sup> This question leads directly to another one, related to Smith’s role in the history of the theory of value: When asserting that “labour [. . .] is the real measure of the exchangeable value of all commodities”, is Smith ranking himself with those looking for a stable measure of value, or is he founding the labour theory of value?

This paper will help to understand the different concepts developed by Smith to measure wealth –especially real price and value or exchangeable value– and their relation with labour. It will outline the criticism made by Ricardo and Marx against Smith’s treatment of value and measure of value and conclude that the inconsistency that both authors attribute to him actually results from their misinterpretation of Smith’s arguments. Also, it shows that the confusion originates from a very particular use of terms by Smith. However, it is possible to show the existence of an important symmetry between the concepts of real price and exchangeable value developed by Smith and the concepts of value and exchange value developed by Marx. The paper concludes that, for Smith, labour is a measure of value but also the source of value, so that the Scottish philosopher opts in the first chapters of *The Wealth of Nations* for a labour theory of value against the belief of those who interpret that Smith founded a value theory based on production costs.

## Smith’s formulation

In the first paragraphs of Chapter V of *The Wealth of Nations*, Smith states three interrelated concepts that are very often confounded or mixed up: value, real price and exchangeable value. Let’s start with value:

The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. <sup>4</sup>

In the second phrase of the next paragraph, this definition of value appears again:

What every thing is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people.<sup>5</sup>

It is easy to see that these are two versions of the same concept of value. On the one hand, in the first version cited the value of commodity *A* is the quantity of labour the person possessing *A* can acquire giving it in exchange; in the second version cited the value of commodity *A* (what it “is really worth”) is the toil and trouble that *A* saves its owner, who exchanges *A* for something else. In both versions the definition of the value of the commodity *A* is made from the point of view of its owner who wishes to exchange it for another commodity that he or she does not possess; the value of commodity *A* is a certain amount of something (purchased labour or saved toil and trouble) related to a commodity which *A* can be exchanged for, let’s say commodity *B*. On the other hand, in both versions, the owner of commodity *A* can exchange it for the commodity that he or she wants, by definition commodity *B*. In the first version he or she acquires some amount of labour related to commodity *B*, whereas in the second version he or she saves the toil and trouble of producing *B*. Since both versions of the definition of value cited above are formulated by Smith to express the same concept (“the value of any commodity” = “what the commodity is really worth”), it seems logical that both expressions –“the quantity of

---

<sup>3</sup>David Ricardo [1806], p. 13 and Karl Marx [1867], p. 55.

<sup>4</sup>Adam Smith [1776], I.v.1, p. 44.

<sup>5</sup>Adam Smith [1776], I.v.2, p. 44.

labour which it enables him to purchase or command” and “the toil and trouble which it can save to himself, and which it can impose upon other people”– are synonymous, the second expression being a metonymy of the first. Hence, “toil and trouble” means “labour purchased or commanded”.<sup>6</sup>

“Real price” is the second concept Smith states in the first paragraphs of Chapter V:

The real price of every thing, what every thing really costs *to the man who wants to acquire it*, is the toil and trouble of acquiring it.<sup>7</sup>

To state the concept of real price Smith refers to a person that has a different perspective than the one referred to state his concept of value. In the definition of the value of  $A$ , the person is someone who already owns  $A$  but desires to exchange it for  $B$ ; for that person, the value of  $A$  is “the quantity of labour which  $A$  enables to purchase or command” or “the toil and trouble which it can save to himself”, thanks to its exchange for commodity  $B$ . In the definition of the real price of  $A$  the person is someone who does not have  $A$  but wants it; for that person, the real price of  $A$  is “the toil and trouble of acquiring it”, or, which it is the same, the amount of labour –“the toil and trouble”– the person must incur if he or she had to produce it.

Smith therefore refers to two different concepts related to commodity  $A$ . The value of  $A$  is the labour that can be purchased through the exchange of  $A$  or, what for Smith is the same, the labour which  $A$  allows its owner to save through the exchange of  $A$  for  $B$ ; the real price of  $A$ , by contrast, is the labour required to produce  $A$  itself. Thus, the value of  $A$ ,  $V_A$ , and the real price of  $A$ ,  $R_A$ , are defined as follows:

$$\begin{aligned} V_A &= L_B \text{ for whom owns } A \text{ and desires } B \\ R_A &= L_A \text{ for whom does not own } A \text{ and desires } A \end{aligned}$$

with  $L_A$  being the labour necessary to produce  $A$  and  $L_B$  being “the quantity of labour which  $A$  enables to purchase or command” through the exchange of  $A$  for  $B$ . Let’s suppose for the moment that, as I will show later, “the quantity of labour which  $A$  enables to purchase or command” –defined as  $L_B$ – means the amount of labour required to produce  $B$ .

When defining these concepts, Smith seems to be aware of the conceptual difference between value and real price. The definition of real price appears only once; this is the only place where he takes the perspective of someone who does not own  $A$  but desires it and where he mentions the amount of labour necessary to produce  $A$ . The definition of value, however, appears in no less than five places. Whenever he talks about value he takes the perspective of the owner of  $A$  who wants to exchange it for  $B$  and refers to value not as the quantity of labour necessary to produce  $A$  (which would be the real price of  $A$ ) but as the quantity of labour that can be purchased with  $A$ .

There is one place, however, where Smith establishes a relationship between his concepts of value and real price:

Labour alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times

---

<sup>6</sup>The first expression (labour purchased or commanded) is interpreted by Ricardo and Marx as the amount of living labour that can be hired in the market, as we will see in a next section. I will show in a next section that “the quantity of labour that the commodity enables its owner to purchase or command” does not mean the living labour hired in the labour market, as Ricardo and Marx interpret, but the labour necessary to produce commodity  $B$ . The second expression (toil and trouble) is interpreted by some neoclassic economists as the psychological cost of labour and a premonition of the theory of labour disutility. For example Mark Blaug [1962], p. 50: “The ‘real value’ of a commodity is its labour price, meaning by labour, not a certain number of man-hours, but units of disutility, the psychological cost of work to the individual, and meaning by value, esteem value rather than exchange value.” See also Samuel Hollander [1973], p. 128. In my interpretation, as shown above, both expressions mean the amount of labour required to produce the commodity.

<sup>7</sup>Adam Smith [1776], I.v.2, p. 44. Italics have been added by the author.

and places be estimated and compared. It is their real price; money is their nominal price only.<sup>8</sup>

Labour is the real price of all commodities. At the same time labour is the ultimate and real standard against which the value of all commodities can be estimated and compared. This phrase contrasts with the definitions given for value and real price and might cause some confusion that would partially explain the criticism of Ricardo and Marx, as we will see in the next section. Smith affirms that the real price of commodity  $A$  –the amount of labour required to produce it,  $L_A$ – is the ultimate standard to estimate the value of  $A$ . This does not necessarily mean that real price and value are conceptually equivalent; it only means that value is estimated by real price. Under what circumstances can we consider that value and real price, as defined by Smith at the beginning of Chapter V, are quantitatively equivalent?

Let us take the two commodities of our example,  $A$  and  $B$ , which can be exchanged. We know that market prices of both commodities are equal,  $P_A = P_B$ , since by definition  $A$  can be exchanged in the market for  $B$ . Nevertheless, in the situation described by Smith, market prices depend on a number of circumstances other than production conditions, such as the proportions between offer and demand;<sup>9</sup> for this reason, the exchange of commodity  $A$  for commodity  $B$  does not imply that both commodities are produced with the same amount of labour, i.e. that  $L_A = L_B$ , and therefore value and real price of  $A$  are not necessarily equivalent. They will be equivalent only if “the higgling and bargaining of the market”<sup>10</sup> makes the exchange proportion between the two commodities  $A$  and  $B$  correspond to the quantities of labour with which they have been produced. Smith mentions no mechanism ensuring that this happens.

We end this section with the third concept defined by Smith in Chapter V, as announced above: the exchangeable value. At the end of the third paragraph of this chapter Smith evokes again his definition of value, but this time he presents the concept of “exchangeable value” with a little nuance in relation to value, a nuance that could or could not be meaningful. He says:

His fortune is greater or less, precisely in proportion [...] to the quantity either of other men’s labour [...] which it enables him to purchase or command. The exchangeable value of every thing must always be precisely equal to the extent of this power which it conveys to its owner.<sup>11</sup>

In the first sentence of the above statement Smith states that a person’s fortune is measured by the amount of other person’s labour that it enables him or her to purchase or command; that “amount of other person’s labour” corresponds to his definition of value. In the second sentence, Smith calls “exchangeable value” this purchasing power that fortune (or any commodity) gives to its owner. Could exchangeable value be considered a synonym for value? There could be a subtle difference in the definition of both concepts: the value of a commodity is the quantity of labour that it allows to purchase or command, while exchangeable value is not the labour itself but the power to purchase labour that the commodity confers to its owner. The meaning of this nuance –value is labour, exchangeable value is purchasing power– should be weighted. In fact, “the extend of this power” could also be understood as the amount of labour itself that a commodity allows to purchase, in which case value and exchangeable value would be synonymous, both meaning “the quantity either of other men’s labour [...] which [the commodity] enables [its owner] to purchase or command”. The perception that Smith does not differentiate between value and exchangeable value seems to be confirmed in the famous paragraph in which he says that “the word value has two different meanings”, value in use and value

---

<sup>8</sup>Adam Smith [1776], I.v.8, pp. 48-49.

<sup>9</sup>Adam Smith [1776], I.vii.8, p. 84: “The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour, and profit, which must be paid in order to bring it thither.”

<sup>10</sup>Adam Smith [1776], I.v.4, p. 46.

<sup>11</sup>Adam Smith [1776], I.v.3, p. 45.

in exchange,<sup>12</sup> not the three (value in use, value, and value in exchange or exchangeable value) that it would have if Smith considered value and value in exchange different concepts.

If it is true that Smith uses the words value and exchangeable value as synonyms, it will allow us to better establish Smith's role in the formulation of the labour theory of value. As will be seen below, the concept of value developed by Ricardo and Marx actually corresponds to Smith's concept of real price, not to his concept of value, while Marx's concept of exchange value is somewhere close to Smith's concept of value or exchangeable value.

## Criticism of Ricardo and Marx

Ricardo and Marx criticize Smith for the role he attaches to labour as a measure of value. However, it seems to me that their criticism is not well founded. On the one hand, they attribute to Smith a confusion of concepts that actually originates in that they do not realize that Smith is referring to two different concepts: value and real price. On the other hand, they attribute a meaning to "the quantity of labour which commodity *A* enables its owner to purchase or command" –in our denomination,  $L_B$ – that does not correspond to the meaning that –in my opinion– Smith states. Let us dwell on this interpretation.

Ricardo partially quotes the following passage from Smith, in which the latter presumably refers to two different amounts of labour as if they were identical:

Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value, to those who possess it and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command.<sup>13</sup>

The two sentences before the semicolon state that all wealth is acquired by working. Ricardo celebrates these sentences because they show that Smith coincides with his own position, which is that labour is "the foundation" or "original source" of exchange value of all things ("excepting those which cannot be increased by human industry").<sup>14</sup>

The third sentence, after the semicolon, states that for those who possess wealth "and who want to exchange it for some new productions", its value "is precisely equal to the quantity of labour which it can enable them to purchase or command". Ricardo interprets that this last expression does not refer to the amount of labour embodied in these "some new productions" but to the amount of living labour that can be hired in the market in exchange for the salary equivalent to that wealth. He transposes "the quantity of labour that can be purchased or commanded" into "the quantity which it can command in the market",<sup>15</sup> something that Smith never said. Hence he concludes that Smith "has himself erected another standard measure of value" and uses the terms bestowed on labour and commanded labour "as if these were two equivalent expressions".

Marx shares the same interpretation, who even puts the term "living labour" into the mouth of Smith:

[...] he sometimes confuses, and at other times substitutes, the determination of the value of commodities by the quantity of labour required for their production, with its determination by the quantity of living labour with which commodities can be bought, or, what is the same thing, the quantity of commodities with which a definite quantity of living labour can be bought.<sup>16</sup>

---

<sup>12</sup>Adam Smith [1776], I.iv.13, p. 42.

<sup>13</sup>Adam Smith [1776], I.v.2, p. 44.

<sup>14</sup>David Ricardo [1817], p. 13.

<sup>15</sup>David Ricardo [1817], p. 14.

<sup>16</sup>Karl Marx [1861-1863], p. 70 [notebook VII, p. 244].

This interpretation leads Ricardo and Marx to say that Smith has two different kinds of labour in mind. The first one would be –in Ricardo’s words– “the labour bestowed on the production” of the commodity, or “the quantity of labour required for [its] production” –in Marx’s words. According to this first interpretation of Ricardo and Marx the value of commodity  $A$  would be for Smith  $L_A$ , which actually corresponds to what Smith calls real price of commodity  $A$ . Seen with the eyes of Ricardo and Marx, Smith’s second kind of labour would be the amount of living labour or labour force which can be hired by a salary equivalent to the price of commodity  $A$ . According to this second interpretation of Ricardo and Marx, the value of commodity  $A$  would be for Smith  $L = \frac{P_A}{W}$ , where  $L$  is a certain amount of living labour or labour force,  $W$  the market wage and  $P_A$  the market price of commodity  $A$ . For Ricardo and Marx, the value of  $A$ ,  $V_A$ , would then be defined by Smith in two alternative and contradictory ways:

$$V_A = \begin{matrix} L_A \\ L = \frac{P_A}{W} \end{matrix}$$

Both quantities of labour,  $L_A$  and  $L$  –the labour bestowed on the production of  $A$  or required for the production of  $A$ , and the living labour commanded or purchased in exchange for  $A$ – would be equal only if labourers receive all the product of their labour as a reward, without sharing it with capitalists and landowners. In fact, when the private ownership over capital emerges, the product of labour has to be shared between labourers and capitalists, and the price of  $A$  becomes the sum of wage cost ( $WL_A$ ) plus profit. If profit is calculated as a proportion  $\pi$  of the wage cost, then:

$$P_A = WL_A(1 + \pi) \Rightarrow L_A = \frac{P_A}{W(1+\pi)}$$

It follows that both amounts of labour are equal only if the profit rate is 0 and so the whole value added is going to the labourers as their wage, i.e.

$$L_A = L \Leftrightarrow \pi = 0$$

This is what happened “in the early stages of society”, where “the reward of the labourer [was] always in proportion to what he produced” and so “the quantity of labour bestowed on a commodity, and the quantity of labour which that commodity would purchase, would be equal, and either might accurately measure the variations of other things.”<sup>17</sup>

If Ricardo’s and Marx’s interpretation were correct, Smith would be defining or measuring the value of commodity  $A$  by two quantities of labour,  $L_A$  and  $L$ , which are equal only when there is no profit or rent. Furthermore, when profits are positive ( $\pi > 0$ ), the amount of living labour purchased in exchange for  $A$ ,  $L$ , depends on market salaries (inasmuch as  $L = \frac{P_A}{W}$ ) and hence would not be the “invariable” measure of value Smith is looking for. Marx exposes his criticism as follows:

[Smith] makes the exchange–value of labour the measure for the value of commodities. [...] The value of labour, or rather of labour–power, changes, like that of any other commodity, and is in no way specifically different of any other commodity.<sup>18</sup>

Most of contemporary readers of Smith share Ricardo’s and Marx’s interpretation of “commanded labour”. Lionel Robbins, for example, affirms that “as Ricardo pointed out, there is all the difference in the world between those two measures.”<sup>19</sup> Ronald Meek, on other hand, interprets that for Smith “the quantity of ‘labour’ which it [your commodity] can enable you to command” means “the quantity of present labour which you can hire with the process of its sale.”<sup>20</sup> Samuel Hollander, finally, affirms in an emphatic way that

<sup>17</sup>David Ricardo [1817], p. 14.

<sup>18</sup>Karl Marx [1861-1863], p. 70-71 [notebook VII, p. 244].

<sup>19</sup>Lionel Robbins [1980], p. 136.

<sup>20</sup>Ronald Meek [1956], p. 64, note 1.

“the discussion of a *measure* of value in terms of labour command is not part of a theory of the *determination* of value.”<sup>21</sup>

In my interpretation neither definition of value attributed by Marx and Ricardo to Smith corresponds to the concept of value proposed by him. Regarding the first definition of value attributed to Smith it should be underlined that  $L_A$  is not the value of  $A$  for Smith –as it is interpreted by Marx and Ricardo–, but its real price. For Smith the value of  $A$  is not the labour required to produce  $A$  but “the quantity of labour which commodity  $A$  enables its owner to purchase or command”. Regarding the second definition of value attributed by Ricardo and Marx to Smith,  $L$ , I have to say that it is also incorrect, since they interpret the phrase “the quantity of labour which commodity  $A$  enables its owner to purchase or command” as  $L = \frac{P_A}{W}$ , when it should be interpreted as  $L_B$ , the amount of labour required to produce the commodity  $B$  (which is acquired in exchange for  $A$ ). This second misinterpretation is addressed in the next section.

## A re-interpretation of “purchased or commanded labour”

It is very difficult to accept that Smith proposed these two measures of value of  $A$  ( $L_A$  and  $L$ ) –attributed to him by Ricardo and Marx–, without noticing they are so different. In fact, Smith knows that in the presence of private ownership of land and capital, the annual produce transformed in money allows hiring a quantity of labour larger than the labour necessary to produce it. He also knows the reason, which is that the value added by labour has to be shared between wages, rents, and profits:

[. . .] the annual produce of its labour [of a civilized country] will always be sufficient to purchase or command a much greater quantity of labour than what was employed in raising, preparing, and bringing that produce to market.<sup>22</sup>

Rather than accepting that Smith was wrong, I prefer to point out that he uses the expressions “acquiring a commodity” and “acquiring the labour bestowed on its production” synonymously. There is some documentary evidence in *The Wealth of Nations* that confirm this hypothesis and which make his argument coherent. For example, Smith affirms that by exchanging  $A$  its owner acquires “the quantity either of other men’s labour, or, *what is the same thing*, of the produce of other men’s labour, which it enables him to purchase or command.”<sup>23</sup> With the phrase in italics Smith clarifies that “acquiring other men’s labour” is the same event as “acquiring the produce of other men’s labour”. So, when the owner of  $A$  exchanges  $A$  for  $B$ , he or she purchases  $B$ , which is equivalent to the purchase the labour bestowed on the production of  $B$ . For Smith, according to my hypothesis, buying an object means avoiding the toil and trouble of producing it, and for that reason buying an object is equivalent to impose the toil and trouble of producing it on other men. Another men’s labour “is the same thing” than the produce of these men’s labour. Therefore, Smith did not commit the error attributed to him by Ricardo and Marx of defining value in two alternative and contradictory ways. As I have proposed, he is using different terminologies to express the same idea: in Smith’s language “labour commanded by  $A$ ” has exactly the same meaning as “labour embodied or bestowed in the thing acquired by  $A$ ”, the thing acquired by  $A$  being in our example  $B$  and the labour bestowed on it being  $L_B$ .

It follows that Ricardo’s and Marx’s criticism cannot be justified by Smith’s inconsistency, but can be seen as a result of their own interpretation of Smith’s language. When Smith says that the value of an object is measured by the labour that can be purchased by it, he is not thinking of labour force or living labour that can be hired in the labour market, but of labour bestowed on the production of the purchased commodities.

<sup>21</sup>Samuel Hollander [1987], p. 64.

<sup>22</sup>Adam Smith [1776], I.vi.24, p. 81. See also Adam Smith [1776], I.vi.7, p. 74.

<sup>23</sup>Adam Smith [1776], I.v.3, p. 45. Just in the previous sentence Smith also refers to the two terms as synonyms: “The power which that possession [the wealth] immediately and directly conveys to him [its owner], is the power of purchasing; a certain command over all the labour, or over all the produce of labour which is then in the market.” Italics have been added by the author.

If we accept my interpretation of “purchased or commanded labour”, we can now understand better the interchangeable use by Smith of the expressions “value” and “measure of value”. At the beginning of Book I, ch 5, Smith says: “Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life.”<sup>24</sup> Since nobody can produce all the things he or she requires, they are acquired through exchange, so that “the far greater part of them derive from the labour of other people.” The wealth of someone consists of and is measured by the amount of things that this wealth allows him to purchase, or, what is the same in Smith’s language, “the quantity of labour which he can command, or which he can afford to purchase”. Benjamin Franklin, more than fifty years before, proposed to measure wealth in the same way:

By labour may the value of silver be measured as well as other things. [...] Thus the riches of a country are to be valued by the quantity of labor its inhabitants are able to purchase, and not by the quantity of silver and gold they possess; which will purchase more or less labor, and therefore is more or less valuable, as is said before, according to its scarcity or plenty.<sup>25</sup>

This criterion to measure the wealth of a person –the labour required to produce the things that can be purchased with it– is extended by Smith to measure the value of every commodity, doing a sort of assimilation between wealth and value: “The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command.”<sup>26</sup>

That said, it is necessary to underline that Ricardo’s and Marx’s concept of value does not coincide with that of Smith, at least not with the concept he calls value, even if the mistake they attribute to him were corrected. For Smith, the value of commodity  $A$  is the labour required to produce  $B$ ,  $L_B$ . For Ricardo and Marx, the value of commodity  $A$  is the labour required to produce it,  $L_A$ . This last concept does not correspond to Smith’s concept of value but instead to Smith’s concept of real price.

## The two measures of value

Apart from the differences that we have analysed between Smith on the one hand and Ricardo and Marx on the other one, let me suggest some similarities that should not be overlooked and that explain the weight Ricardo and Marx give to Smith as the predecessor of their own theories of value.

As we saw, Smith defines real price and value or exchangeable value. The real price of  $A$  is  $L_A$  for the man who desires  $A$ ; the value or exchangeable value of  $A$  is  $L_B$  for the man who has  $A$  and wants to exchange it for  $B$ . If we exclude the perspective of either person in these definitions, Smith’s formulation is not so different from the one made by Marx in his chapter 1 of *Capital I*. Let me highlight the existence of a certain symmetry between the two authors.

Marx postulated the co-existence of two different measures of value. For him commodity  $A$  has an intrinsic or immanent measure of value, which is “the quantity of the value-creating substance, the labour, contained in the article [which] is measured by his duration”;<sup>27</sup> it is  $L_A$ , the amount of labour required to produce  $A$ . Commodity has also an extrinsic measure, which is the exchange value of  $A$ , defined by Marx as the commodity by which  $A$  is exchanged,  $B$  itself. When  $A$  is exchanged for  $B$ , the owner of  $A$  gives the commodity  $A$  and receives the commodity  $B$ . The value he gives is  $V_A$ , the value of commodity  $A$ . What value does he receives? He receives commodity  $B$ , which is the exchange value of  $A$ ;  $B$ , as commodity, has a value that is  $V_B$ , defined by Marx as  $L_B$ , the quantity of

<sup>24</sup>Adam Smith [1776], I.v.1, p. 44.

<sup>25</sup>Benjamin Franklin [1719], p. 265.

<sup>26</sup>Adam Smith [1776], I.v.1, p. 44.

<sup>27</sup>Karl Marx [1867], p. 38.

labour required to produce  $B$ . It can be a quantitative difference between the value given,  $V_A = L_A$ , and the value received,  $V_B = L_B$ . Marx considers this difference normal and explains it in his famous transformations of values into prices theory.

Smith, meanwhile, also postulates the existence of two measures of commodity  $A$ ,  $L_A$  and  $L_B$ .  $L_A$  is the real price of  $A$  and  $L_B$  is the value or exchangeable value of  $A$ . In order to find some symmetry with Marx's formulation, we can affirm that  $L_A$  is the intrinsic measure of value –called by Smith real price– and  $L_B$  is the extrinsic measure of value or exchangeable value. The intrinsic measure would be identical for both authors, but not the extrinsic measure:  $L_B$  cannot be the extrinsic measure of value for Marx, since for him the extrinsic measure of value is a commodity, nor a value, nor an amount of labour. Despite the difference, we can see a marked symmetry in the concepts of the two authors: for Smith the real price of  $A$  ( $L_A$ ) is to the exchangeable value of  $A$  ( $L_B$ ) as for Marx the value of  $A$  ( $L_A$ ) is to the exchange value of  $A$  (which for him is not  $L_B$  but  $B$ , or ultimately a certain amount of money-commodity,  $P_A$ ). If we look at it this way, the quantitative difference between the two measures of value proposed by Smith,  $L_A$  and  $L_B$ , could be considered a premonition of what Marx explains as the difference between value and exchange value.

The different formulation of the extrinsic measure of value – $L_B$  for Smith and  $B$  for Marx– is possibly related to the distinct perspective of each author. Both authors start from a commodity  $A$ , which has to be sold to become a second commodity,  $B$ . In fact, Marx analyses the measure of value and measures value in money, because the social form of value *par excellence* is precisely money. Smith is measuring wealth, but without money, given that for him money provokes distortions he wants to avoid. Marx's individual has a commodity  $A$  that he or she wants to exchange for money; the value of  $A$  is thus measured by *its ability to be sold*, i.e. by the amount of money in which  $A$  has to be transformed. Smith's individual has a commodity  $A$  that he or she wants to exchange, not for money but for the commodity  $B$ ; the value of  $A$  is measured by *its purchasing power*, but for Smith its purchasing power is not the money received when  $A$  is sold but  $B$  itself, or, “what is the same thing”, the quantity of labour which commodity  $A$  enables him to purchase or command ( $L_B$ ). The different perspective of each author –Marx is looking at the transformation of  $A$  into money, Smith is looking at the transformation of  $A$  into  $B$ – explains, at least partially, why for Marx the external measure of value is money and for Smith it is commanded labour,  $B$  or  $L_B$  itself.

## Source and measure of value

Finally, we are able to answer the initial question: Is labour for Smith an external measure of value, as gold or silver, or is it the foundation, the original source or the substance of value, as it is for Ricardo and Marx? The difficulty in answering this question is that in Smith's language there is no difference between value and measure of value. As we saw above, when asked “what is value?” Smith answers very often the question “how can we measure value?”

The origin of this quid pro quo could be that Smith does not make a distinction between value and exchange value or price, a distinction made by Aquinas before him and by Marx after him. In fact, Smith affirms that

the word value, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called ‘value in use;’ the other, ‘value in exchange.’<sup>28</sup>

If Smith had been aware of the distinction between value and exchange value, he would have mentioned three meanings for the word “value”: value in use, value in exchange and value itself. Nevertheless, as we have seen above, Smith uses the terms “value” and “value in exchange” synonymously. In the paragraph just quoted, he defines the exchange value

---

<sup>28</sup>Adam Smith [1776], I.iv.13, p. 42.

of a commodity as “the power of purchasing other goods”. The purchasing power of a commodity is nothing else but its price. When the price of the commodity increases, it increases the amount of goods for which it can be exchanged, and we can therefore agree with Smith that its power of purchasing is higher than before, and the reverse when its price drops. Price is the exchange value of the commodity expressed in money, and that is why money is the first and most common measure of this “power of purchasing other goods”. This measure is not accurate for Smith, because under certain circumstances an increase in the price of a commodity does not reflect an increase in its “power of purchasing other goods”; this happens, for example, when the price of the commodity rises as part of a general price increase, in which case the power of purchasing of the commodity actually remains constant, although the monetary measure of its exchange value is rising. It is for this “defect” of money as a measure of the purchasing power or value in exchange that Smith proposed labour as an alternative measure.

However, the choice of labour is not accidental. When Smith proposes labour as a measure of value, he is certainly proposing it to fulfil the role of money, that is, measuring the purchasing power of the commodity, which he calls “value” or “value in exchange”. Labour is a means to express the purchasing power of commodity A, just like money is used to express the purchasing power of commodity A on its price. Smith is clearly not trying to develop a concept different from price, but simply expressing the purchasing power on a new kind of *numéraire*, labour. In that sense, labour is simply a measure of value, a “real standard”<sup>29</sup> or *numéraire*, not its source, its foundation, nor its substance.

That said, the choice of labour as the invariable measure of value reveals that Smith believes that labour is the real source of value. This belief is confirmed by many passages where Smith mentions labour as the source of value, without reference to its role as measure. For example the following passage:

They [money or those goods] 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 [of labour].<sup>30</sup>

At all times and places that is dear which it is difficult to come at, or which it costs much labour to acquire; and that cheap which is to be had easily, or with very little labour.<sup>31</sup>

In the first passage Smith notes that exchanges are made based on the amount of labour contained by exchanged objects; the second establishes a direct relationship between the price of the objects and the amount of labour it takes to procure them. We can also find the idea that labour is the source of value in other passages where Smith claims that the whole annual produce of society is the result of labour, even if the labourer has to share it with the owners of capital and land. From the emergence of private property of capital the capitalists use their capital to buy tools and materials and hire workers, “in order to make a profit by the sale or their work, or by what their labour adds to the value of the materials”.<sup>32</sup> A portion of the money obtained by the employer from selling the product is intended to replace materials consumed; the remainder is a value added exclusively by labour and divided between wages and profits:

The value which the workmen add to the materials, therefore, resolves itself in this case into two parts, of which the one pays their wages, the other the profits of their employer upon the whole stock of materials and wages which he advances.<sup>33</sup>

The same is true with the emergence of private property in land: landowners require a portion of what is produced by labour in exchange for use of their land; such participation constitutes the income of the land:

<sup>29</sup> Adam Smith [1776], I.v.8, pp. 48-49.

<sup>30</sup> Adam Smith [1776], I.v.2, p. 44.

<sup>31</sup> Adam Smith [1776], I.v.7, p. 48.

<sup>32</sup> Adam Smith [1776], I.vi.5, p. 72.

<sup>33</sup> Adam Smith [1776], I.vi.5, p. 72.

He [the labourer] must give up to the landlord a portion of what his labour either collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land, and in the price of the greater part of commodities makes a third component part.<sup>34</sup>

The worker must share what he produces with capitalists and landlords, and only then can have access to land and capital. All what is distributed among the three classes, however, is produced or obtained by labour:

The whole of what is annually either collected or produced by the labour of every society, or what comes to the same thing, the whole price of it, is in manner originally distributed among some of its different members.<sup>35</sup>

From the paragraphs quoted it follows that labour is the exclusive source of the annual product and its monetary representation. This implies that the value of the product –“the whole price of it”– is not the result of simply adding up the three primary incomes, wages, rent and profit, but, on the contrary, these revenues are the result of distributing the value produced annually by labour.

The reflexion of the precedent section about the two measures of value –the intrinsic measure of value, called real price by Smith, and the extrinsic measure of value, called exchangeable value by him– clarifies the apparent confusion about the role of labour in Smith’s theory of value. On the one hand, the labour that is the source of the value of commodity  $A$  is  $L_A$ , the amount of labour required to produce commodity  $A$ , just as the source of “the whole of what is annually either collected or produced [...]” is “the labour of every society” required to produce it. On the other hand, the labour that is the measure of the value of commodity  $A$  is  $L_B$ , the amount of labour required to produce commodity  $B$  that can be acquired in exchange for  $A$ .<sup>36</sup>

Therefore, Smith chooses labour as the invariable measure of value because labour is the source of value: value itself is labour and, measured in labour, only changes if the amount of labour required to produce a commodity increases or decreases due to changes in production conditions. For Smith, labour is measure and source of value. That is the answer to the title of this paper.

## References

- [1] Franklin Benjamin [1719], A modest inquiry into the nature and necessity of a paper currency, en Jared Sparks (ed) The Works of Benjamin Franklin, Wittemore, Niles and Hall, volume 2, Boston, 1856.
- [2] Mark Blaug [1962], Economic Theory in Retrospect, Cambridge University Press, 4th ed, London, 1992.
- [3] Hollander Samuel. The economics of Adam Smith. Heinemann Educational Books, Canada, 1973.
- [4] Hollander Samuel [1987]. Classical Economics. Basil Blackwell, Canada, 1992.
- [5] Marx Karl [1861-1863]. Theories of Surplus-Value, Progress Publishers, Moscow, 1978, Part I.

---

<sup>34</sup>Adam Smith [1776], I.vi.8, pp. 74-75.

<sup>35</sup>Adam Smith [1776], I.vi.17, p. 78.

<sup>36</sup>Looking at the two amounts of labour,  $L_A$  and  $L_B$ , we can find the same kind of relationship that Marx points at when he talks about the intrinsic and the extrinsic measure of value. Since “the whole of what is annually either collected or produced” includes all the commodities produced, including  $A$ ,  $B$  and all that can be exchanged for them, we can affirm that for the whole economy both amounts of labour, the intrinsic and the extrinsic measure of value of all commodities –or, in Smith’s vocabulary, their real price and their exchangeable value–, must be identical, just as for Marx the sum of values is identical to the sum of prices.

- [3] Marx Karl [1867]. Capital, Volume I, Foreign Languages Publishing House, Moscow, 1959.
- [6] Meek Ronald L. [1957]. Studies in the Labour Theory of Value, Lawrence and Wishart, London, 1973.
- [7] Ricardo David [1817]. On the Principles of Political Economy and Taxation. Piero Sraffa (editor), The Works and Correspondence of David Ricardo, Volume 1, Cambridge University Press, London, 1990.
- [8] Robbins Lionel [1980]. A History of Economic Thought. The LSE Lectures. Princeton University Press, Oxford, 2000.
- [9] Smith Adam [1776]. An Inquiry into the Nature and Causes of the Wealth of Nations. Glasgow Edition, Liberty Fund Inc, USA, 1981.