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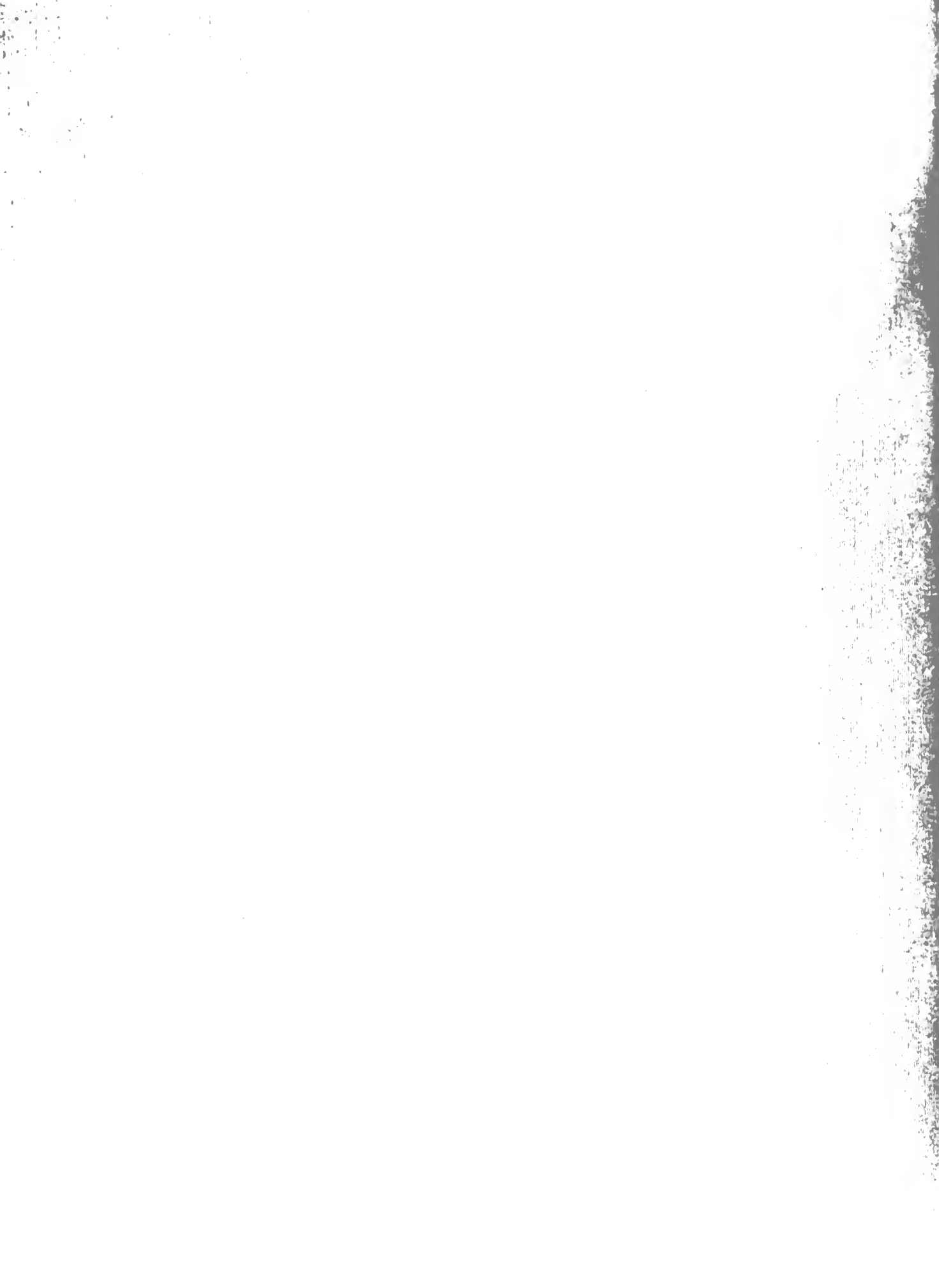
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Adam Smith and the American Colonies: A Critique

Salim Rashid

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Adam Smith and the American Colonies: A Critique

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Department of Economics

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ABSTRACT

Two facets of Adam Smith are criticized in this paper: first, it is argued that Adam Smith's views on the American Colonies have no theoretical merit at all; secondly, that Smith never fully accepted the mutually beneficial nature of domestic trade.

ADAM SMITH AND THE AMERICAN COLONIES: A CRITIQUE

Even the best of men is a strange mixture of truth and error, of insight and partial blindness, of careful and slovenly thought and writing.

George Stigler, The Economist as Preacher

In assessing the contribution of the Wealth of Nations shortly after the death of Adam Smith a writer in Times pointed out that Smith was noteworthy as the creator of a "system" of economics. While the principles of the system were not new, the Times wrote, it was Smith who had argued for it at greatest length. It was a system which tended to confuse "National Wealth with National Prosperity"--a clear indication that Smith was seen to hold economic well-being as the primary ingredient of prosperity. The originality and validity of Smith's economic analysis--not his sociological insights, or his historical knowledge, or his political astuteness--must be established if Smith's fame is to be well-grounded.

In the case of the colonies at least, it would appear that Smith's rhetoric is of much more importance than his economic reasoning.¹ The latest editors of the Wealth of Nations R. M. Campbell and A. S. Skinner, frankly say of Smith's criticisms that² "it is a plausible, powerful thesis which may be defended on a variety of grounds other than those on which Smith relied." In other words, if colonial policy is to be attacked, Smith's arguments are not the ones to use. This radical implication is not however brought clearly forth and the variety of praise given to Smith in the rest of Campbell and Skinner's Introduction makes it impossible for the novice to grasp just how much

has been left unsaid. In view of the tedious frequency with which the Wealth of Nations is linked with the American Revolution as harbingers of a new approach it is worth taking a cold, hard look at Smith's economic analysis of the American colonies. In order to avoid the accusation of misrepresenting Smith, I shall quote his own words wherever possible.³

The manner in which the authority of a great name imposes upon us is instructive. In the course of a fine critique of Adam Smith's ignorance of the Industrial Revolution, R. Koebner feels it necessary to praise Adam Smith's views on the "other" revolution--that in the American colonies. While there is nothing wrong in thus attempting to offset a critique of one part of an authors work with praise for another part, it is surprising to find that Koebner quotes Adam Smith as declaring that "parting in friendship" was the best solution to the conflict! And this in spite of Smith's explicit rejection of the proposal for peaceful separation and his extensive treatment of the benefits of an imperial federation between the colonies and Britain!⁴

II.

The section on colonies begins with a review of the motives for establishing colonies and the history of some colonial ventures from Greek times down to the Spanish settlements of North America. This is all routine matter for Smith's contemporaries. Smith warms to his topic when he discusses the English colonies in North America. They are the most prosperous of American colonies and they are so because they enjoy liberty and good lands. This liberty has been beneficially used by restraining the engrossing of lands and thus permitting labor to be freely exercised in Agriculture.⁵ As for the rules that govern the trade of the colonies, Smith believes them to have been designed by merchants who thought of them selves before all else.⁶ Nonetheless, English colonies are still not so badly off as the colonies of other nations, primarily because the colonials are British.⁷

Smith then turns to examining whether Europe has benefitted from having colonies. In general terms, Smith sees two benefits, the increase of enjoyments and the increase of industry. Indeed, the wide variety of new goods made available from America as well as the new activity they gave rise to are undeniable. It is when Smith turns to the colonial system itself, whereby the mother country influences the trade of its colonies, that we enter a potent field. Smith believes the monopoly of the colony trade gives each mother country an advantage over its rivals. This is however immediately and significantly qualified by Smith.⁸ The impact of the above passage relies greatly on its ambiguity. Are we being told that England would be better off

with free-trade permitted to its "colonies" even though all other countries practiced a monopoly of their colony trade? This is obviously wrong. Any policy feasible under free-trade is still feasible under monopoly, so one would scarcely expect a rational monopolist to be worse off. Or are we being told that England should adopt free-trade if all other countries also practiced free-trade? This is still wrong and it is also irrelevant. It is wrong because a country can increase its wealth above the free-trade level if it can monopolize a commodity-- who can say that the OPEC countries are not richer than they would have been?⁹ It is irrelevant because no one can be expected to take policy decisions on the basis of universal friendship and free-trade.¹⁰

Smith, however, continues his argument by insinuating that England has not gained at all from the colonies. The argument that follows needs careful consideration because there is a substantial gap between what is actually being argued, which is fairly innocuous and what the argument seems to imply, namely, that colonies are actually disadvantageous. It is scarcely possible to provide the impact of more than ten printed pages of argument by means of quotes so the reader is asked to look carefully at the original. As this is the economic argument Smith lays greatest stress upon, his economic analysis of the colonies must stand or fall with this section.

The monopoly of the colony trade raised the profit rate in the colony trade, attracted capital from other trades and eventually led to a somewhat higher profit rate than existed before the establishment of such a monopoly.¹¹

This superiority of profit in the colony trade could not fail to draw from other branches of trade a part of the capital which had before been employed in them. But this revulsion of capital, as it must have gradually increased the competition of capitals in the colony trade, so it must have gradually diminished that competition in all those other branches of trade; as it must have gradually lowered the profits of the one, so it must have gradually raised those of the other, till the profits of all came to a new level, different from and somewhat higher than that at which they had been before.

These increased profits, however, constitute a change in direction and not a net increase in trade according to Smith.¹² The redirected stock of capital will of course be at a relative disadvantage in every field in which the English do not have a monopoly. Since the general profit rate has risen higher after the establishment of the colonial monopoly, it is but natural that some other markets, which cannot match the high colonial profits, will now be unattractive to the English.¹³

All this may be readily granted, but what does it have to do with the principal question--has Britain grown richer because of the colony trade? The straightforward answer would be that the higher profits mean greater GNP. National Income is the most meaningful way of describing a "richer" economy. That the higher colonial profits necessitate reallocation of capital from less profitable Europe to more profitable America is undoubted but how can this deny that the higher profits do make Britain richer? Smith's whole procedure is a non sequitur.¹⁴

Smith however is not done yet. He sets up an opponent who will assert that the colonial trade is more advantageous (we are not told why) and then proceeds to refute this opponent with his own theory of

sequentially beneficial investment. This peculiar theory claims that economic investments may be ranked in a hierarchy, according to the benefit they provide the economy. In order of benefit, this hierarchy is First, Investment in Agriculture, Next comes Manufacturing, followed by transportation and finally comes distribution. A further analysis then shows that a round-about trade is less beneficial than a direct one. It is needless to elaborate upon the details because no one today considers this hierarchical arrangement defensible. Today, we would simply assert that what is most profitable is best.¹⁵ Campbell and Skinner call this one of the "less successful" parts of Smith's argument and go on to emphasize "the great burden" this argument is made to bear subsequently. Here is Smith applying it to the colonial trade.¹⁶

The most advantageous employment of any capital to the country to which it belongs, is that which maintains there the greatest quantity of productive labour, and increases the most the annual produce of the land and labour of that country. But the quantity of productive labour which any capital employed in the foreign trade of consumption can maintain, is exactly in proportion, it has been shewn in the second book, to the frequency of its returns. ... A foreign trade of consumption carried on with a neighbouring, is, upon this account, in general, more advantageous than one carried on with a distant country;

Since then the colonial monopoly has both turned trade from a neighbouring to a distant country and often transformed a direct trade into a round-about one, it is no doubt a less advantageous trade. That the colonial trade has increased profits without enriching Britain and that it has diverted industry from a nearer to a more distant market thus constitute Smith's principal economic objections to the colonial trade.

In addition to all the above, the colonial trade has also made British trade insecure by forcing a greater portion of it into a single American market instead of many small European markets.¹⁷ Smith likens this situation to that of a blood-vessel which has an immoderate amount of blood forced through it and whose rupture therefore carries serious implications for the health of the body. The repeal of the stamp-act was popular with merchants precisely because it assured them that the trade of the colonies would not suffer such a complete stop.¹⁸ Smith has now introduced a new criteria for judging the value of colonial trade, its riskiness, and the validity of this objection deserves consideration. The argument derives its practical force from the assumption that all the colonies would act as one unit, a very questionable assumption in 1776. Analytically, it may be noted that the argument depends solely upon the concentration of a large volume of capital upon a single market. There is nothing to say that such a concentration could not come about even under the most complete free-trade.¹⁹ An unfriendly nation could always stop all trade--as France tried to do under Napoleon. Indeed, the fact that the colonies could carry out a non-importation threat is proof of the political failure of colonial policy, as so many of Smith's contemporaries observed. To blame economic policy, for political failure does not help to clarify the real issues. Finally, the real comparison should have been between the volume of trade drawn to the colonies under free-trade and the volume drawn by monopoly and not a comparison of the latter with the total cessation of trade.

Smith goes on to consider the general effects of laying open the colony trade and contrasts the general good effects of the discovery of the American market with the bad effects that have followed from bad European colonial policy. It is only because the good effects were so enormous that the net effect of the colonies has nonetheless been favourable. This does not by any means excuse actual English policy.²¹

The monopoly of the colony trade, therefore, like all the other mean and malignant expedients of the mercantile system, depresses the industry of all other countries, but chiefly that of the colonies, without in the least increasing, but on the contrary diminishing, that of the country in whose favour it is established. [emphasis added]

It is worth emphasizing Smith's remarkable conclusion. Britain has not only suffered a "relative disadvantage," the non-argument already discussed earlier, but has actually suffered because of the monopoly of the colony trade! In case we mistake his meaning Smith goes on to develop the point at length.²¹

...as capital can be increased only by savings from revenue, the monopoly, by hindering it from affording so great a revenue as it would otherwise afford, necessarily hinders it from increasing so fast as it would otherwise increase, and consequently from maintaining a still greater quantity of productive labour, and affording a still greater revenue to the industrious inhabitants of that country. [emphasis added]

The spectacle of a nation of shopkeepers embarking on a policy of loss and sustaining it for almost two centuries boggles the mind, but Smith, nothing daunted, develops it with exquisite patience.

How then has Smith analyzed the economic consequences of colonial policy in North America? He provides us with one irrelevant argument on the loss of non-colonial trades, another dubious argument regarding the possibility of a complete cessation of the colonial trade, and,

finally, clinches the issue with an incorrect argument about the different productivities of capital.²² To make the argument completely decisive he finally adds an objection deriving from human nature.²³ Nor are the merchants the only individuals to be debauched by high profits.²⁴

If his employer is attentive and parsimonious, the workman is very likely to be so too; but if the master is dissolute and disorderly, the servant who shapes his work according to the pattern which his master prescribes to him, will shape his life too according to the example which he sets him.

The reader is now faced with a considerable problem. Smith's entire theoretical system is based upon the devotion to gain and accumulation-- an urge that comes with us from the womb and never leaves us till we are in the grave. And now we are told that this mighty force can be deranged by success! We are told to trust in a slab of granite that will bear everything but weight.

III.

The fact that Campbell and Skinner have attempted to be occasionally critical of Adam Smith is itself considerable progress. A more traditional view may be found in the following paregryic, written by an author who had carefully studied both the prior and the subsequent literature on colonies.²⁵

Indeed, his [Smith's] treatment of the subject doubtless constituted so much of an improvement over previous English theorizing, that, in respect to this subject, his work may be called truly revolutionary. While, in the field of economic theory and general commercial policies, numerous predecessors had anticipated his contributions, in the field of colonial theories, i.e., in the application of the principles of theoretical economics to the subject of colonial trade, he had virtually none. In this specific field, too, all that was left to his successors was to expand, elaborate, qualify, and, above all, disseminate his conclusions. On the subject of colonies, then, The Wealth of Nations marks the most revolutionary advance in the evolution of British thought.

It would be unfair to blame Klaus Knorr for an admiring attitude that is all too widespread, but one is tempted to remark that Adam Smith's views on the colonies are spoken of in a vein which suggests that the Wealth of Nations had never been written.

That there are several perceptive remarks in the chapters on Colonies, such as the costs involved in maintaining the British monopoly, is true, but these are all secondary points in the critique. The curious point is that none of his major arguments stand up to careful scrutiny. Now Adam Smith was also a professor of rhetoric and in his lectures on the subject we find a very careful and detailed account of how the readers are influenced by good writing. At more

than one point, Smith draws a sharp contrast between the styles of the orator and that of the historian.²⁶

The orator insists on every particular, expresses it in every point of view, and sets off every argument in every shape it can bear. What the historians would have said barely and in one sentence, by this means is brought into a long series of different views of the same argument. The orator frequently will exclaim on the strength of the argument, the justice of the cause, or anything else that tends to support the thing he has in view; and this, too, in his own person. The historian, again, as he is in no pain what side seems the justest, but acts as if he were an impartial narrator of facts, so he uses none of these means to affect his readers. He never dwells on any circumstance, nor has he any use for insisting on arguments, as he does not take part with either side, and for the same reason he never uses any exclamations in his own person. When he does so we say he departs from the character of the historian and assumes that of the orator.

In view of the many accounts that praise Adam Smith's critique of British Colonial policy one may wonder whether generations of scholars have not been persuaded by a master of rhetoric, who moved with ease from his role as historian to his role as an orator?

NOTES

¹Times, 6 August, 1790. In addition to his economic arguments, Adam Smith also made a number of sociological observations on the nature of politics in the colonies, on the ambitions of colonial politicians etc. (Most of these were uncomplimentary.) As these anecdotal remarks are not relevant to my critique of his economic arguments, I shall simply ignore them in the body of the essay, but shall make a conjecture on their possible rhetorical influence in the conclusion. Among Smith's contemporaries, Thomas Pownall, the former Governor of Massachusetts, provided several sound criticisms of Smith's views in A Letter to Adam Smith... (London 1776). Smith made no response to these criticisms. A more notorious approach to the colonial issue was that of the Rev. Josiah Tucker who advocated total separation. While the most knowledgeable scholars of the colonial period, such as V. T. Harlow and L. H. Gipson, have given high praise to Tucker, his merits are generally unappreciated. S. Rashid "He startled...as if he saw a spectre: Josiah Tuckers proposal for American Independence" Journal of the History of Ideas (1982), XLIII, 3, 439-460.

²An Inquiry into the Nature and Causes of the Wealth of Nations, ed. R. M. Campbell and A. S. Skinner (Oxford, 1976), 2 volumes. (Hereafter WN). I, 34 (emphasis added).

³My quarrel with Smithian scholarship goes deep and this is scarcely the place to engage in it. In order to minimize the length of this piece I shall avoid referring to the secondary literature. For a good recent example of misleading scholarship however, see, A. W. Coats, "Adam Smith and the Mercantile System," in Essays on Adam Smith ed. A. S. Skinner and T. Wilson (Oxford, 1976). Product differentiation is an unfortunate necessity and this has led me to make several remarks upon Andrew Skinner, the one recent scholar who has hinted at several of Smith's faults. It will be clear that I do not feel Skinner (and others) go far enough. The real question is not whether Smith made some (minor) mistakes but whether his primary arguments make any sense. A. S. Skinner, "Adam Smith and the American Economic Community. An Essay in Applied Economics," Journal of the History of Ideas, 37, (1976), 59-78. I do follow Skinner in emphasizing Smith's rhetorical ability as an explanation for his success. I am grateful to A. W. Coats for insisting upon this point.

⁴"Adam Smith and the Industrial Revolution," Economic History Review (1959), 381-391.

⁵WN, II, 571-573.

⁶op. cit., 584.

⁷op. cit., 590.

⁸op. cit., 594-595.

⁹There is always the possibility of retaliation; but this does not affect the argument that the enforcement of a monopoly can be beneficial, given the right circumstances. It is not an issue to be dismissed on theoretical grounds. With some asperity, Smith does recognize the benefits of trade restrictions in a different part of the Wealth of Nations, but none of those considerations are brought to bear on the colonial problem. See WN, I, Book IV, Chapter 2.

¹⁰Opponents of Free Trade, from Alexander Hamilton and Friedrich List to modern days, have repeated this objection: proof of the beneficence of universal free-trade presupposes the existence of a (benevolent) world government.

¹¹WN, II, 596.

¹²op. cit., 598.

¹³op. cit., 600.

¹⁴Skinner (1976) summarizes this whole argument without comment. Indeed, the subsequent remarks would even suggest that Skinner agreed with Smith's evaluation, op. cit., 63.

¹⁵There are various qualifications about externalities, social costs and so on, which are not relevant to the present argument.

¹⁶op. cit., 600.

¹⁷op. cit., 604.

¹⁸op. cit., 605.

¹⁹Indeed some one domestic branch of an economy could also assume "unhealthy" proportions.

²⁰op. cit., 610-611.

²¹op. cit., 611.

²²My difference with the existant style of Smithian scholarship is clearly illustrated by the following (penultimate) evaluation of Andrew Skinner, the most critical contemporary Smithian scholar:

It would, however, be rash to conclude that Smith's views are unchecked, incomplete and unremarkable. Criticism of the type we have considered [Skinner has just cast doubt on several aspects of Smith's analysis, facts and originality], although perhaps justifiable given the elaboration of Smith's argument, only teaches us caution in reading Smith's account and confirms its positive value [emphasis added], op. cit., 77.

Among the items of positive value noted by Skinner are the differential growth rates of Britain and the colonies--well-known before Smith as Skinner himself notes--and the advocacy of economic union--a policy which had also been well discussed, especially in the context of Ireland. How the fact that Smith did not fall behind his age on two relatively commonplace issues serves to rescue his reputation is a mystery to me.

Skinner's final evaluation of Smith as a consummate rhetorician is excellent and I follow it in my conclusion.

²³op. cit., 612.

²⁴op. cit., 612.

²⁵Klaus Knorr, British Colonial Theories 1570-1850 (Toronto, 1944), 175. Without admitting in quite explicit terms the utter failure of Smith's economic analysis of the colonial problem scholars try to achieve perspective either through "historical" analysis, as in the earlier referred to piece by Coats, or focus on Smith's ideas in a political framework, e.g., D. Winch, Adam Smith's Politics (Cambridge 1978). It is indicative of the reverence with which Smith is treated that all his mistakes require "explanation." An impartial spectator may be amused at the treatment meted out to one who is said to have claimed that the free expression of ideas was the surest road to the truth.

²⁶Lectures on Rhetoric and Belles Lettres ed. J. M. Lothian (London, 1963), 31-32.

Acknowledgements: I am grateful to Arthur Diamond, Larry Neal and A. S. Skinner for their most helpful comments. A. W. Coats kindly provided me a long and extended critique of an earlier version of this essay, but I regret to say that our differences still continue to be quite sharp.

SMITH, MARX, AND SURPLUS-VALUE

The problem is not how did the socialists reach their revolutionary conclusions, but rather how did the classics reach their conservative conclusions.

Gunnar Myrdal

I.

In view of the detailed credit given to Adam Smith in the Theories of Surplus Value it is surprising that the Smithian parentage of Marxian surplus value has not been generally recognized.¹ The fact, however, needs to be advertised more widely, especially since it bears not only on our understanding of both Karl Marx and of Adam Smith but also on the entire debate regarding value that pervaded classical economics. A careful reading of this issue suggests a reading of these authors that "solves" seemingly contradictory statements by referring them to different orders of reality. Before forming a final judgment on the validity of such an approach the neo-classical economist is asked to recollect how plentiful are the theorems showing the impossibility of forming accurate economic aggregates and how more plentiful are models making use of just such aggregates.

That the concept of surplus-value is central to the economic aspects of Marxism would appear to be an uncontroversial statement. The origins of the surplus concept are therefore of some interest. Marx himself stressed the difference between arriving at ideas and explaining them in the second German edition of Capital, Book 1.²

Of course the method of presentations must differ in form from that of inquiry. The latter has to appropriate the material in detail, to analyse its different forms of development and to track down their inner connection. Only after this work has been done can the real movement be appropriately presented. (emphasis added)

Who, if anyone, did Marx adopt the surplus-value concept from?

In a perceptive article on the importance of simple primitive economies in guiding the concepts of classical economists Stanley H. Moore draws out the various senses in which a labor theory of value can be used.³

There is the proposition that long-run prices of freely producible commodities are determined solely by labour costs. I shall call this the labour doctrine of price. There is the proposition that the real cost of anything is the quantity of effort or sacrifice entailed by the labour of producing it. I shall call this the labour doctrine of real cost. There is finally the proposition that for any economy--viewed as a whole and through time--natural resources are free requisites of production and capital goods are produced requisites of production, so that for a capitalist economy--viewed from this standpoint--the aggregates of rent and profit represent deductions from the aggregate product of labour. I shall call this the labour doctrine of surplus.

Most of the literature has focused upon the first two aspects of the labor theory of value but it is the third that is of greatest normative importance because it sets the tone of one's entire approach to economic problems. The distinction between "essence" and "appearance" is of considerable importance in Marxist thought and is worth recalling. "Essences" are a higher and more basic order of reality than "appearances." In our present context, prices are immediately visible and serve as appearances while the underlying labor-values form the essence. If prices come to reflect labor-values, this is most welcome; but even if they do not, it is the labor doctrine of surplus that is fundamental.

II.

Even before Marx began a detailed study of political economy he had already determined that labor held the key to the problems of modern civilization. In the Economic and Philosophical Manuscripts, Marx had already reached the conclusion that alienated labor was the cause of the inhumanity of capitalism. It was his reading of the political economists which led him from the individualistic viewpoint to a more social one.⁴ In tracing the influence of Adam Smith on Marx it is important to note that Marx had read Smith as early as 1844 without reaching the labor theory of value. Since Marx was already convinced of the importance of labor on philosophical grounds, the following extracts from Theories of Surplus Value should be taken as serving to confirm Marx's philosophical views as well as giving them specific economic content.

The existence and use of the social surplus in general terms had already been described by Turgot and by Scots such as Adam Smith and Adam Ferguson, there is no doubt that Marx felt it necessary to explain the origin of such a surplus. Initially, Marx had accepted the existence of a wedge between cost price and market price as the primary source of surplus-value but he later converted to the fundamentally different viewpoint that surplus-value arose in production. Marx credited the Physiocrats with being the first to grasp this important point.⁵ (In the middle of the following quote, Marx is himself quoting the Physiocrats)

The Physiocrats transferred the inquiry into the origin of surplus value from the sphere of circulation into the sphere of direct production, and thereby laid the foundation for the analysis of capitalist production.

"The cultivator produces his own wages, and, in addition, the revenue which serves to pay the whole class of artisans and other stipendiaries...."

The proprietor has nothing except through the labour of cultivator...Thus in this passage surplus-value is explicitly stated to be the part of the cultivator's labour which the proprietor appropriates to himself without giving any equivalent, and he sells the product of his labour, therefore, without having bought it.

Physiocratic thought however was incomplete because they focused upon the creation of a material surplus and upon use-values.⁶

Whence, therefore, comes surplus-value? That is, whence comes capital? That was the problem for the Physiocrats. Their error was that they confused the increase of material substance, which because of the natural processes of vegetation and generation distinguishes agriculture and stock-raising from manufacture, with the increase of exchange-value.

Adam Smith, however, distinguished himself by his generalization of the surplus concept to labor in general and Marx dwelt upon these aspects of Smith in some detail. He begins by quoting Smith's own words in Chapter 6 of Book 1 of the Wealth of Nations and then commenting upon the significance of the quote.⁷

The value," Adam continues immediately, "which the workmen add to the materials, therefore, resolves itself in this case" (when capitalist production has begun) "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 advanced." [emphasis given by Marx]

Hence therefore Adam Smith explicitly states: the profit which is made on the sale of the complete manufacture originates not from the sale itself, not from the sale of the commodity above its value, is not profit upon alienation. The value, that is, the quantity of labour which the workmen add to the material, falls rather into two parts. One pays their wages or is paid for through their wages. By this transaction the workmen given in return only as much labour as they have received in

the form of wages. The other part forms the profit of the capitalist, that is, it is a quantity of labour which he sells without having paid for it. If therefore he sells the commodity at its value, then his profit originates from the fact that he has not paid for a part of the labour contained in the commodity, but has nevertheless sold it.

The critical distinction between the exchange value and the use value of labor-power is already apparent above and Marx makes the point quite explicit in his characterization of profits.⁸

Profit is consequently nothing but a deduction from the value which the workmen have added to the material of labour. They add to the material, however, nothing but a new quantity of labour. The workman's labour-time therefore resolves itself into two parts: one for which he has received an equivalent, his wages, from the capitalist; the other which he gives to him gratis and which constitutes the profit. Adam Smith rightly points out that only the part of the labour (value) which the workmen newly adds to the material resolves itself into wages and profit, that is to say, the newly-created surplus-value in itself has nothing to do with the part of the capital which has been advanced (as materials and instruments).

Marx is careful to point out that Smith explicitly rejects the notion of profits as payment for some sort of work,⁹ and is happy to emphasize that Smith himself extended the analysis to rent.¹⁰

One of the objective conditions of labour alienated from labour, and therefore confronting it as other men's property, is capital; the other is the land itself, the land as landed property. Therefore after dealing with the owner of capital, Adam Smith continues:

"As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce... 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." [emphasis given by Marx]

Like industrial profit proper, rent of land is only a part of the labour which is added by the labourer to the materials and which he gives up, hands over to the owner of the land without being paid for it; hence, only a part of the labour-time which he works to pay his wages or to return an equivalent for the labour-time contained in his wages.

Thus Adam Smith conceives surplus-value--that is, surplus-labour, the excess of labour performed and realised in the commodity over and above the paid labour, the labour which has received its equivalent in the wages--as the general category, of which profit in the strict sense and rent of land are merely branches.

Marx sees Smith's greatness to lie precisely in the above deductions.¹¹

We see the great advance made by Adam Smith beyond the Physiocrats in the analysis of surplus-value and hence of capital. In their view, it is only one definite kind of concrete labour--agricultural labour--that creates surplus-value.... But to Adam Smith, it is general social labour--no matter in what use-values it manifests itself--the mere quantity of necessary labour, which creates value. Surplus-value, whether it takes the form of profit, rent, or the secondary form of interest, is nothing but a part of this labour, appropriated by the owners of the material conditions of labour in the exchange with living labour.

It is clear that Marxian surplus value is a developed form of Smithian surplus value. The importance of this debt can be gauged from the claim, made in a letter to Engels, that Marx felt his principal achievement to lie in his analysis of surplus value in general.¹²

This reading of Marx's indebtedness bears upon two aspects of the current literature on Marx. First, the domination of the subject by the labor-embodied versus labor-commanded theories of price would appear to be unfortunate. It is not as a theory of price that labor values are important but rather as a theory of value creation in the

radical meaning of the term. Marx was very insistent that surplus did not arise in the sphere of exchange, hence theories of price, or exchange-value, appear to be distractions; it is only in the analysis of production that true surplus can be found.¹³

If prices reflect labor-embodiment, well and good. If not, one had to distinguish between different orders of reality. The fundamental contrast was the division of output between labor and other orders of society. Then came a secondary division between the members of the propertied classes. So long as the primary division of output, i.e., to labor was settled outside the market it was a matter of lesser importance whether the surplus be distributed according to power or scarcity. This interpretation would preserve what Garegnani has focussed upon as a "core" concept in Quesnay, Smith, Ricardo and Marx.¹⁴

[These authors] shared not so much the idea of a wage determined by the level of subsistence as the more general concept of a wage determined by economic and social forces before and independently of the other shares of the social product.

On the above reading, Marx had reason to be delighted with Ricardo's use of the labor theory of prices because they helped to focus upon essence and appearance simultaneously. If, however, the labor theory of prices were jettisoned this would not influence the validity of the Smith-Marx insight into labor as the creator of surplus-value. The famous Transformation Problem--from the values of Volume I to the prices of Volume III of Capital--is now seen to be of secondary importance. Secondly, it has been stated that Marx was insufficiently appreciative of the radical analysts of the 1820's, such as Thomas Hodgskin and William Thompson, sometimes called the Ricardian socialists. Not only

is the term Smithian socialists more appropriate in explaining the origins of these critics of capitalism, but also in pointing out that many of the solutions offered by these radicals focused upon the adoption of a more laissez-faire approach in order to achieve equity.¹⁵

III.

The origins of Marx's views on surplus-value also bear upon our reading of Adam Smith. Did Marx misread Adam Smith and find out some passages that would support his preconceived ideas? Such an interpretation is untenable in view of the fact that both Lord Lauderdale and T. R. Malthus read Smith exactly as Marx did. Samuel Read also agreed that Smith had made an erroneous assertion (without drawing any preinicious consequences therefrom) and went on to illustrate the curious hold (by modern standards!) that "labor" had on classical economists by insisting that "value" made sense only in conjunction with labor.¹⁶

Ricardo's difficulties with the concept of value are too well-known to require detailed rehearsal. In every edition of the Principles, Ricardo praises Smith for having "so accurately defined the original source of exchange value" in labor. His adoption of the labor theory of exchange value was, by the third edition of the Principles (but not in the first two) a convenient, albeit realistic, approximation. Yet Ricardo's mode of reasoning continues to utilize the Smithian notion that labor creates surplus. Consider the numerical example employed in Ricardo's revised thoughts on machinery in the third edition of the Principles.¹⁷ To begin with, we have a farmer whose yearly activities can be summarized as follows:

Fixed Capital	7,000	
Wages (Circulating)	<u>13,000</u>	
	20,000	
Profits (10 percent)	<u>2,000</u>	(used for consumption)
Total	<u>22,000</u>	

The circulating capital is said to "replace the value of 15,000," i.e., to provide the required profit of 2,000. Why does the surplus-value arise from labor alone? Ricardo continues the train of thought that surplus value arises from circulating capital in his treatment of year 1, when the capitalist sets half his workers to construct machines, and considers the profits of 2,000 arising in equal parts from the workers in farming and the workers in machines.

Fixed Capital (Old)	7,000	
Wages (Farming)	6,500	} Used in agriculture
Profits (Farming)	1,000	
Wages (Machines)	6,500	} Embodied in machines
Profits (Machines)	<u>1,000</u>	
Total	<u>22,000</u>	

Once again, we find Ricardo claiming that all the surplus arising from circulating capital or labor. Whatever Ricardo's difficulties with the labor theory of price may have been, he appears to have clearly accepted the claim that labor alone creates value. This reading of Ricardo suggests that he lived in a dual world--one of markets and prices and another one of surplus values. Recent attempts to find a consistent reading of Ricardo have become so contorted that this cutting of the Gordian knot may even be acceptable.¹⁸

In a passage that strikes one as peculiarly Marxian in its thrust, John Stuart Mill, solemnly reproduced the Smith-Ricardo heritage on the existence of profits.¹⁹

The cause of profit is, that labour produces more than is required for its support... We thus see that profit arises, not from the incident of exchange, but from the productive power of labour.

Those who consider this dichotomous reading of the classical economists to be fanciful should recollect how repeatedly they urged that value should be an absolute concept in that it should be independent of the market. It was their inability to find the repository for such a concept that probably led into their vacillations over the measures of value and particularly to their search for an invariable measure of value. In his latest thoughts on this problem Ricardo wrote clearly to this effect. Malthus spent much time pointing out that in common speech value did not mean exchange-value and even a critic of the thought patterns of these economists, Samuel Bailey, had to admit that common usage was on their side.²⁰

Perhaps the most unorthodox conclusion of this discussion is the light it throws on Adam Smith. Instead of being seen only as a supporter of mutual gains through free trade, Smith is now also an exponent of the exploitative nature of capitalist relations. It is true that many scholars have commented upon the extent to which Smith modifies any harmony view of Capitalism by his frequent and somewhat acerbic description of "masters." However, all these points relate to the economy as a system of power.²¹ What is significant about the above reading is that Smith considers profits and rents to be deductions from the worker without any reference to monopoly or power relations. Exploitation arises simply as a consequence of capitalist production.

How clearly did Adam Smith grasp the foundational premise of modern economics on the mutual beneficence of market exchange? Later

scholars have been content to note that since Adam Smith admitted capital to be productive he could not have meant to imply the radical conclusions of a labor theory of value. However, this is to force a consistency that the rest of Smith's work appears to deny. As Alec Macfie has said, "Consistency was not his [Smith's] shining virtue."²² Marx put his finger on the crux of the issue in a commenting on the irrelevance of Samuel Bailey's critique of the notion of value.²³

Bailey clings to the form in which the exchange value of the commodity as commodity appears... The most superficial form of exchange value, that is the quantitative relationship in which commodities exchange with one another, constitutes according to Bailey, their value. The advance from the surface to the core of the problem is not permitted.

In other words, the crucial methodological principle involved is whether an explanation of the cause of phenomena is also bound to explain the quantitative magnitude of that phenomena. Such a principle was not entirely foreign to the classical period. Historically, the justification of taxation had long proceeded along political lines, while the amount of taxation was discussed using costs, equity and other economic criteria. Adam Smith himself had used a dichotomous mode of reasoning on several occasions. For example, the source of the division of labor was the propensity to truck, barter and exchange while the quantitative impact of the division of labor was measured by market forces; the real value of a commodity was given by its labor disutility--the toil and trouble of acquiring it--while its market value was given by money price; labor itself was either productive or unproductive, with no intermediate gradations, even though Smith's reasoning would be consistent with degrees of productivity; finally,

some scholars have noted how Smith uses a totally inelastic savings function for profit rates above the minimum, so that consumers either save a fixed amount or they do not save at all.²⁴ Surely it is not too far-fetched to claim that such an author would explain the existence of profits with one set of arguments and their numerical magnitude with another.

Paul Douglas noted this aspect of Smith in his sesquicentennial lecture and concluded that Marx had adopted his views from Smith via the Ricardian socialists. Even though Douglas did not see the conceptual difference between the Ricardian socialists and Marx's viewpoint or refer to Marx's explicit acknowledgement in the Theories of Surplus Value, the conclusion drawn by Douglas still has some validity.²⁵

Marx has been berated by two generations of orthodox economists for his value theory. The most charitable of the critics have called him a fool and the most severe have called him a knave from what they deem to be the transparent contradictions of his theory. Curiously enough, these very critics generally commend Ricardo and Adam Smith very highly. Yet the sober facts are that Marx saw more clearly than any English economist the differences between the labor-cost and labor-command theories and tried more earnestly than anyone else to solve the contradictions which the adoption of a labor-cost theory inevitably entailed. He failed, of course; but with him Ricardo and Smith failed as well. There are, it seems to me, few more unfair instances in economic thought than the almost complete unanimity with which the English-speaking economists of the chair have heaped condemnation upon the overworked and poverty-stricken Marx, who worked under such great difficulties, and, save for the comments of Jevons and a few others, have heaped praises upon Smith and Ricardo. The failure was the failure not of one man but of a philosophy of value, and the roots of the ultimate contradiction made manifest to the world in the third volume of Das Kapital lie embedded in the first volume of the Wealth of Nations.

How are we to reconcile such a view with the Adam Smith of the chapters on Mercantilism? Is free trade mutually beneficial in international trade and exploitative in domestic production? Does the evidence not indicate some basic indecision and inconsistency in Smith regarding the benefits of free exchange, contrary to popular wisdom and generations of textbooks?

NOTES

1. Indeed, the connection is explicitly denied in the most widely-used advanced text on the history of economic thought, Blaug (1984), 52. Some Marxists, e.g., Althusser (1970) treat Marx's adoption of the Smithian viewpoint as axiomatic. However, many other scholars, perhaps a majority, Marxist and non-Marxist alike, minimize the surplus-value notion and focus upon prices. An excellent recent account of Marx's thought repeatedly emphasizes the labor theory of prices. Oakley (1985), 48, 74. The Smith-Marx nexus is quite absent in most of the textbook or popular literature, e.g., R. Lekachman, A History of Economic Ideas (New York: McGraw-Hill, 1976); J. Barzun, Darwin, Marx, Wagner (New York: Anchor, 1958), and is curtly dismissed in specialist accounts that refer to this issue, D. Winch, Adam Smith's Politics (Cambridge: C.U.P., 1978), 90. Even authors who otherwise display considerable sympathy for the Marxist viewpoint, quite miss the link with surplus-value in a developed capitalist economy, e.g., G. Freudenthal, Atom and Individual in the Age of Newton (Riedel: Dordrecht, 1986), 157, or T. Tinker, Paper Prophets: A Social Critique of Accounting (Praeger: New York, 1985), 120-123. For articles on Smith that claim Smith limited a labor theory to primitive conditions, see the pieces by Bitterman (no. 17), West (no. 33), Lamb (33), and Henderson (58) in Wood (1984).
2. Marx (1967), 19.
3. Moore (1966), 318-319.
4. Claeys (1984), 229.
5. Marx (1963), 45 and 57.
6. Ibid, 62-63
7. Ibid, 79.
8. Ibid, 80.
9. Ibid, 81.
10. Ibid, 82.
11. Ibid, 85.
12. Mandel (1971), 83.
There is some (unintended) irony in the claim of von Mises that "Neither will the reader find in the Wealth of Nations a refutation of the teachings of Marx..." von Mises (1953), v.
When a link between Smith and Marx is posited it is on the basis

of the four stages theory of historical materialism. Raphael (1985), 1. Apart from missing the analytical link regarding surplus value, such statements can also be misleading because Marx admired the historical awareness of Sir James Steuart more than that of Adam Smith.

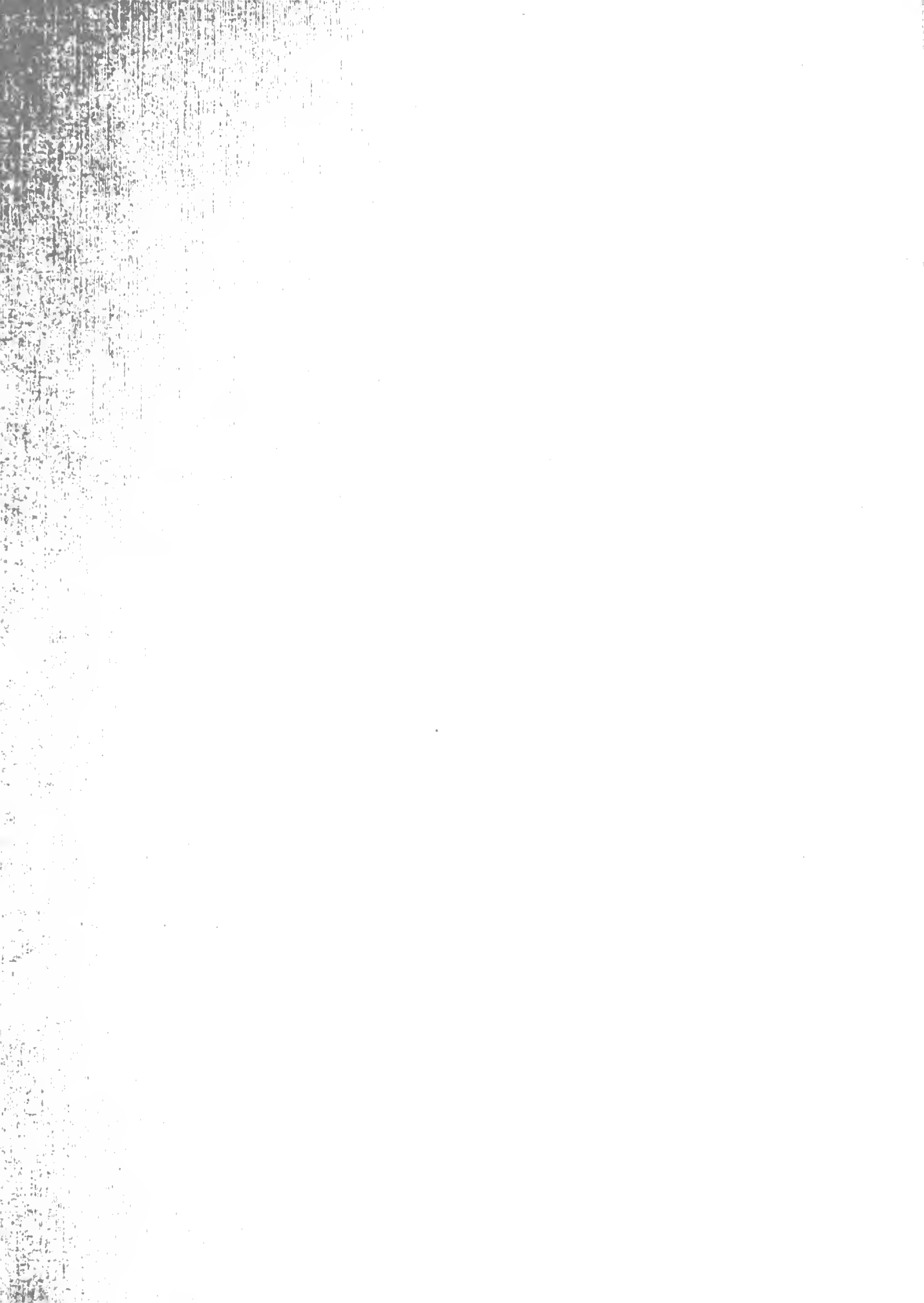
13. Hunt (1977), Meek (1974).
14. Quoted in Caravale (1985).
15. King (1983), 360, 367-69.
16. Lauderdale (1804), 157-58; Malthus (1836), 76; Read (1829), viii. In his Glasgow lectures Smith used labor as the only factor--neither rents nor profits are mentioned. Lectures on Jurisprudence, eds. R. L. Meek, D. D. Raphael and P. G. Stein (Oxford: O.U.P., 1978), 495-496. See Bowley (1973) for more details.
17. Ricardo (1951), 388-395. Two careful accounts of the wider significance of Ricardo on Machinery are the essays of Walter Eltis and of Ferdinando Meacci in G. Caravale (1985). In a recent debate on Ricardian and Marxian linkages, while considerable attention is given to the Physiocratic concept of surplus, Smith is mentioned only once, and that too in passing. See the contributions by P. L. Porta, P. Groenewegen, G. Dastaller and G. Faccarello in History of Political Economy (Fall, 1986).
18. There is, of course, a long tradition which attributes Ricardo's influence on socialists to the (mis?) interpretation of Ricardo having attributed labor to be the source of all value. H. S. Foxwell's introduction to Anton Menger, The Right to the Whole Produce of Labour (London 1899). For a recent discussion of the justice of this attribution, see Hollander (1980). The difficulties in finding a consistent interpretation of Ricardo are noted by Mark Blaug in the introductory essay to the volume edited by Caravale (1985).
19. Mill (1874), 417.
20. Bailey (1823), 1.
21. Samuels (1973).
22. Hollander (1973), 150-154. Macfie (1959), 217.
23. Marx (1963), Vol. III, 139.
24. Bowley (1973), 193-199. The most influential recent resolutions of "Das Adam Smith Problem"--the conflict between the views of human nature found in the Theory of Moral Sentiments versus that in the Wealth of Nations--now turn on the two books referring to different levels of abstraction.

25. Douglas (1928). This approach is repeated in McNulty (1980). It should be noted that a reliable edition of the Theories of Surplus Value was not available at the time of Douglas' essay.

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