ADAM SMITH AND THE LABOUR THEORY OF VALUE:
AN UNCONVINCING “RECONSIDERATION”

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Abstract

In a recent paper Terry Peach argues that Adam Smith found no reason to limit application of the labour-embodied theory of value to the case of the “early and rude state” of society. In fact, not only that: according to Peach, Smith found a problem in employing the labour-commanded measure of value with reference to the contemporary “commercial” economy and, in order to resolve the issue, he (somewhat surreptitiously) abandoned labour-commanded and adopted instead labour-embodied as a generally valid theory of exchange value. However, we find Peach’s revolutionary “Reconsideration” to be fatally flawed - for the reason that it derives from Peach’s evident misunderstanding of what is implied by the labour-commanded measure of value.

JEL Classification: B12.

Key words: Adam Smith on Real Value; labour-commanded; labour-embodied; “labour of acquiring.”

1. Introduction

In his paper “Adam Smith and the Labour Theory of (Real) Value: A Reconsideration” (2009) Terry Peach propounds the novel thesis that Adam Smith, despite accepting that the simple labour-embodied theory of value (the proposition that the value of a commodity equals the total value of the labour directly and indirectly employed in its production) applies only in the context of a society in which all income is received by labour without any share going as rent or profits, nevertheless did his best to present relative values as essentially determined by labour embodied even when profits and rents do enter into the picture. Peach’s intention is, as he puts it (p.383), “to establish [that] Smith continued to apply labour theory reasoning to the later ‘commercial’ society, both to static exchangeable values and their changes.”

Is Peach correct? Did Smith really attempt to do that? The purpose of this paper is to try to answer these questions.
We consider Peach's argument step by step. His discussion may be viewed as falling into three parts. He attempts firstly to make the point that, with reference to modern "commercial" society - even when taking account of profit and rent as constituents of commodity prices - Smith says nothing which actually excludes the possibility that labour costs still determine relative (if not absolute) commodity values. In the second part of his discussion Peach contends that Smith, notwithstanding his introduction of a labour-commanded measure of value, nevertheless harks back to the notion that commodity values correspond to quantities of labour-embodied. Peach in fact argues – most unexpectedly - that Smith's labour-commanded measure leads him, via its corn-commanded equivalent, to a labour-embodied standard. Thirdly, Peach seeks to demonstrate that in analysing particular real world situations Smith reveals adherence to the labour-embodied theory of value.

2. A generally applicable - if "approximate" – version of the labour theory of value?

Peach begins by stating (p.383) his intention “to question the widely-held opinion that Adam Smith confined his use of a labour theory of exchangeable value to an ‘early and rude’ state of society in which independent laborers exchange the surplus products of their labor.” In that notional (classless) “early state” commodity prices (costs) consist simply of the sum of payments to labour incurred in production. Peach's claim is that Smith saw no reason not to employ, and indeed continued to employ, a “labour-embodied” approach with reference to the situation existing in a contemporary society in which capitalists and landowners capture shares of the national product.

Peach - as he himself recognises – is going against the grain of conventional opinion in suggesting that Smith saw the labour theory (or a version thereof) as being of general applicability and not limited to the “early and rude” state of society. That is certainly not how Smith is normally interpreted. The general opinion amongst scholars is that Smith did employ a labour theory of value, but merely as a preliminary analytical step, applicable only in the context of a notional, pre-modern economy. Peach emphasises that he is rejecting the conventional view, as espoused by such authorities as Joseph Schumpeter (1954), Sam Hollander (1973), Donald Winch (1978) and Nerio Naldi (2003).

The view rejected by Smith is expressed, for instance, by Schumpeter (1954, pp.188-9) who, on the issue of what Peach calls "confinement of the labour theory," comes down squarely in favour of the usual interpretation - that Smith confined applicability of the labour theory to the "early and rude" state of society. Thus Schumpeter:

The quantity [of labour] a commodity costs to produce . . . comes to the front in the famous beaver-deer example at the beginning of ch. 6, though it is but just to add that Smith confines the proposition that this quantity “regulates” price expressly to that "early and rude state of society" in which there are no other distributive shares [other than wages] shares to take into account.
Schumpeter comments further:

We are left with the . . . labor-quantity theory of value. And, finally, since A. Smith - unlike Ricardo and Marx - claimed no validity at all for this concept except in a special case, we come to the conclusion that, in spite of his emphasis on the labor factor, his theory of value is no labor theory at all. (Emphasis added.)

How does Peach come to so different an understanding of Smith?

Note first that Peach (p.387) certainly accepts that Smith understood that when profits and rents emerge as income shares – as costs to be covered out of the proceeds from the sale of output - commodity prices cannot be comprised simply of wages paid to labour employed. He quotes Smith (Wealth of Nations, I, vi, 7) to the effect that, subsequent to the notional “early and rude state of society” capitalists come on to the scene and demand shares of the output produced:

In this state of things, the whole of the produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock which employs him. Neither is the quantity of labour commonly employed in acquiring or producing any commodity, the only circumstance which can regulate the quantity which it ought commonly to purchase, command, or exchange for. An additional quantity, it is evident, must be due for the profits of the stock which advanced the wages and furnished the materials of that labour.

Likewise, again quoting from the Wealth of Nations (I, vi, 8), Peach recognises Smith to understand that landowners also capture - as rent - a share of output:

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. . . . [The labourer] must give up to the landlord a portion of what his labour either collects or produces.

Thus Peach acknowledges Smith's appreciation of the fact that, under the conditions of a contemporary "commercial society", payment of profits and rents divorces the overall cost of production from the wage cost component. Nevertheless Peach doubts that that was enough to dissuade Smith from clinging to the belief that quantity of labour embodied remained the key factor in explaining relative commodity values (p.404):

Book I, chapter 6, of WN, to which we are commonly referred for evidence of [Smith's confinement of the labor theory of exchangeable value] to an "early and rude state of society," offers no supporting evidence at all [that that was Smith's intention]. Smith recognized that the payment of profit and rent must result in an inequality between labor commanded and labor embodied, but that carries no implications whatever for the continuing validity, or otherwise, of the labor theory.
The question is therefore - how is Smith supposed to have "neutralised" the profit and rent components of cost so as to to be able to retain at least a version of the labour theory of relative values? Peach explains the situation (p.389):

The question of the continued relevance (or otherwise) of the [labour theory of value] . . . depends on the proportion that the rent-plus-profit components of price bear to the wage components. If, at one extreme, the proportion is the same for all commodities, they would exchange in proportion to the relative quantities of direct and indirect labour expended on their production, as reflected in their relative wage components. If, at the other extreme, there is not even an approximate uniformity between the rent-plus-profit components, the labour theory would be comprehensively undermined.

Peach attributes to Smith – supposedly sympathetic to the labor-embodied theory - a twofold solution to this potential problem.

(1) As regards rents, Peach argues that Smith more or less "gets rid of rent" by supposing that the more industrialised an economy becomes, the smaller correspondingly becomes the element of rent relative to other components of national income. That is to say, as raw produce is to a greater and greater extent worked-up in the course of production, the rent proportion of costs becomes progressively less significant, possibly even negligible. Thus, according to Peach, Smith – if he was inclined towards the labour embodied theory - need not have worried too much about the implications of rent with respect to prices.

(2) With rent thus effectively pushed out of the picture, Peach must demonstrate that Smith, in keeping the door open to the labour-embodied theory, had also found a suitable treatment of profits. According therefore to Peach, Smith, while appreciating that the inclusion of a profit component means that prices cannot be equal to wage costs, rather than coming down positively in favour of the labour theory, took the position that no reason exists to reject the thesis that profits can be understood as constituting an equi-proportional mark-up on all labour costs incurred in production. If the introduction of a profit element in fact does no more than that, the labour-theory approach may be retained beyond the case of the "early and rude" state of society.

What, we may ask, is the likelihood that profits constitute no more than an equi-proportional addition to labour costs (and of Smith supposing that to be the case)? Peach (p.390) observes that, with respect to any two commodities, "the extent of divergence between exchange ratios [prices] and embodied-labour ratios [wage costs] will depend on the number of backward layers of production activity and, particularly, on differences in the number of layers between production of the two final products.” The point Peach is making is that any differences between industries in the pattern over time of their labour inputs (in other words, in Sraffian terms, their “dated-labour” inputs) mean that final prices are differently affected by a given profit mark-up on labour inputs. For instance, costs of production of goods requiring the same labour inputs will
be higher if a labour input in one industry occurs at an earlier date (stage) in the production process than in the other. Any such variations in the timing of labour inputs undermine the labour theory of value by altering the impact on price of the profit margin.

Peach comments that "There is, then, the potential for a ‘considerable modification’ (as Ricardo would say) to the labor theory, although it is possible that the modification will be inconsiderable if, for instance, [time profiles of labour inputs into production] do not differ greatly between production processes." But he adds, "There is no evidence of Smith having considered the implications of differences in the time profiles of labor inputs for the validity of the labor theory, and consistently with this 'oversight' his grasp of the 'problem' was patently incomplete." That is to say, according to Peach, it was because of an "oversight" that Smith stuck by the labour theory beyond the case of the "early and rude state of society": he failed to understand how the introduction of a profit mark-up on labour costs could cause fatal difficulty for the labour theory of value. Peach's verdict, in other words, is that Smith was prepared to go along with the general application of the labour theory to the modern "commercial" economy, because he lacked the insight which was to give Ricardo such trouble in attempting to retain that theory.

Our view, however, is that Peach has seriously underrated Smith's understanding of how prices may be affected by a profit mark-up on labour costs. We suggest that there exists clear evidence that Smith did appreciate the "time dimension" of the impact of profit on prices, and as well knew the time profile of labour inputs to be very different across different lines of production.

To demonstrate how the cost (price) of commodities produced depends not only on the quantities of labour used in production and on the profit mark-up, but also on the specific dates at which these inputs were applied in production, Smith (I, vi, 14) introduced an example from linen manufacture which involves, in successive stages, the work of flex-dressers, spinners and weavers. He explains how, stage-by-stage over time, the profit mark-up on the cost of any given quantity of labour, applied at a specific point in time, would (at a compound rate) rise over the course of production.

\[ \text{... if the profits of all the different employers of these working people should be raised by five per cent., that part of the price of the commodity which resolved itself into profit, would, through all the different stages of the manufacture, rise in geometrical proportion to this rise of profit. The employer of the flax-dressers would in selling his flax require an additional five per cent. upon the whole value of the materials and wages which he advanced to his workmen. The employer of the spinners would require an additional five per cent. both upon the advanced price of the flax and upon the wages of the spinners. And the employer of the weavers would require a like five per cent. upon the advanced price of the linen yarn and upon the wages of the weavers. In raising the price of commodities \ldots the rise of profit operates like compound interest.} \]
The implication is that:

In the progress of the manufacture, not only the number of the profits increase, but every subsequent profit is greater than the foregoing: because the capital from which it is derived must always be greater. The capital which employs the weavers, for example, must be greater than that which employs the spinners; because it not only replaces that capital with its profits, but pays, besides, the wages of the weavers; and the profits must always bear some proportion to the capital.

Thus Smith is absolutely clear not only that profits separate costs and prices from wage costs, but that the divergence of prices from wage costs increases progressively as the lapse of time from employment of labour to completion of the product increases.

Peach, as noted above, remarked that if time profiles of labour inputs into production do not differ greatly from one industry to another then it is possible that the divergence of price from wage costs on account of the inclusion of a profit element will not "differ greatly between production processes" or industries. (p.390) But Smith's observations (quoted below) on the differences between industrial production processes should disabuse us of any notion that Smith could have supposed the pattern of labour inputs to be much the same between industries. In order to support labour in some lines of production, much more labour must be employed, directly and indirectly, than in others. Smith in fact points out just how varied are the production processes of different industries (II, i, 8-9):

Some part of the capital of every master artificer or manufacturer must be fixed in the instruments of his trade. This part, however, is very small in some, and very great in others. A master taylor requires no other instruments of trade but a parcel of needles. Those of the master shoemaker are a little, though but a very little, more expensive. Those of the weaver rise a good deal above those of the shoemaker. . . . In other words a much greater fixed capital is required. In a great iron-work, for example, the furnace for melting the ore, the forge, the slitt-mill are instruments of trade which cannot be erected without a very great expense. In coal-works and mines of every kind, the machinery necessary both for drawing out the water and for other purposes, is frequently still more expensive.

We may take Smith's description of the different proportions in which industries use fixed relative to working capital as a clear indication that he understood the time patterns of application of labour inputs to vary significantly between industries (and, as we have seen from the linen manufacturing example, he understood also how the size of the profit mark-up depended on the date of application of labour). Fixed capital consists of durable items - buildings and equipment - which are the products of labour indirectly applied to contribute to production far into the future, while circulating capital is the relatively perishable product (wage-goods or materials) of recent labour. As the terminology suggests, labour embodied in fixed capital is invested for a longer
time, and longer before investment of labour in accompanying circulating capital. The mark-up for profit on cost of labour embodied in long-lasting capital goods must far exceed that on circulating capital. Smith’s recognition of the differing conditions of production across industries implies a understanding that the relative prices of final goods would, ceteris paribus, be different in an economy in which all output goes to labour from one - otherwise identical - in which the same output is distributed to wages and profits. In the latter case not only will commodity prices not be equal to labour embodied, the possibility that they are proportionate to labour costs is effectively ruled out by the dissimilarity of production conditions across industries.

It is, we suggest, quite improbable, in view of his awareness of these facts as he describes them, that Smith could ever (as a thought experiment) have imagined that introducing a profit margin on capital invested would have no significant effect on the relative commodity values of industrial products. Consequently, we reject Peach’s interpretation (p.392) that,

the Wealth of Nations contains no evidence, explicit or otherwise, that Smith confined the labor theory to the “early and rude state.” There is no direct and compelling evidence that he regarded anything other than rent as a serious obstacle to the labor theory of “static” exchangeable values: an obstacle that he minimized by turning into an approximation for “the greater part” of manufactured and mined commodities.

We on the contrary believe that Smith’s own observations concerning the character of the industrial system and the impact of profits on prices, actually constitute “direct and compelling evidence” that he could not have accepted the "proportionality" version of the labour-embodied theory of relative commodity values. We find no reason to doubt that Smith, as he is generally believed to have done, did limit the applicability of the labour theory to the notional case of an "early and rude state of society, not intending the labour-embodied explanation of relative values to extend to the conditions of a “commercial society”.

3. Labour-commanded (supposedly) transformed into labour-embodied

The above (unconvincing) “proportionality” argument is only a first stage in Peach’s attempt to attribute to Adam Smith a commitment to the labour-embodied explanation of relative values. The second part of his argument (with which we now deal) reveals, we believe, the reason behind Peach’s “reappraisal” of Smiths’s theory of value. We suggest that a misunderstanding on Peach’s part of the implications of the labour-commanded approach is responsible for Peach’s attempt to “reappraise” – in fact, propose a revolutionary transformation of – Smith’s theory of value. On the subject of labour commanded let us go back to the beginning.

As regards the “real price of commodities” Adam Smith declares (I,v. 2) that “Labour was the first price, the original purchase money that was paid for all things.” Again, he states, (i, v, 1), “A man must be rich or poor according to the quantity of that labour which he can command, or
afford to purchase.” From Smith’s perspective, labour is the ultimate source of all wealth. The real value of any commodity one may possess therefore corresponds to the amount of labour (source of wealth) which it can purchase or command; the real cost of any commodity is the amount of labour (source of wealth) which must be given up to acquire it, either through production or through exchange.

In the “early and rude state” of society where labour captures as income all output produced (no rents or profits involved) the value of labour “embodied” in production determines both the cost of production and to the price of a commodity. To employ Peach’s terminology, the “labour of acquiring through production (LA1)” is the same as the “labour of acquiring through purchase (LA2).”

In a society more advanced than that of the “early and rude state”, capitalists and landowners share output with the workers. Prices can then no longer correspond to labour embodied, but must exceed the wage bill by allowances for profits and rents. Relative commodity values, while no longer equal to labour embodied, may instead be interpreted and measured in terms of labour commanded. That we understand to be the procedure adopted by Adam Smith. The quantity of “labour commanded” denotes price in terms of the quantity of labour for which a commodity may be purchased - either by the “toil and trouble” of actual effort in production, or via exchange of equal values on the market. Even when goods exchange at prices corresponding not to quantities of labour-embodied, but to quantities of labour-commanded, the labour of acquiring through production (LA1) and the labour of acquiring through exchange (LA2) remain equal: whichever is the method of acquisition, the real cost (measured in labour expended) remains the same.

To illustrate: situation (a), the “early and rude” state of society. Suppose that 40 units of labour (40N) go into the production of 20 units of commodity X; if wages are £5 per unit of labour and no output is distributed to profits or rents, the price of 20X will be £200, and the price per unit of X, £10.

Labour-embodied per unit of X is 2N and price of one unit of X (corresponding to 2N) is £20. Labour-commanded per unit of X is 2N. [One unit of X (costing £10) exchanges for/buys 2 units of labour costing (£5 per unit)]. Using Peach’s LA (labour of acquiring) measure, LA1 (labour of acquiring through production: one unit labour (work) earns £5, which buys 1/2X; therefore two units of labour (earning £10) are required to purchase one unit of X. LA2 (labour of acquiring through exchange: one unit labour (by spending £5 in the market) likewise buys 1/2X; two therefore two labour exchange for one X. In these circumstances labour-embodied (LE) equals labour-commanded (LC) equals 2N, and labour of acquiring through production (LA1) equals labour of acquiring through exchange (LA2) = 2N.

Situation (b): the “commercial” society. We suppose again that 40 units of labour go to the production of 20 units of commodity X. Again wages are £5 per unit of labour. This time, however, capitalists take a share of output in the form of profits. Suppose profits are 20% on
capital advanced in support of labour (wage-goods). The price of 20X is now £240, and the price of one unit of X, £12.

The quantity of labour embodied per unit of X is, as before, 2N, but the price of one unit of X is now £12 – equal to the wages of 2.4 units of labour. Labour-commanded per unit of X is correspondingly lighter: one unit of X commands 2.4 labour [On the market one unit of X (costing £12) exchanges for 2.4 units of labour (costing £5 per unit).] In terms of Peach’s labour of acquiring measure (not as Peach, but as we read it), LA1 has risen to 2.4: the real reward of labour is less than before, as more hours have to be worked to acquire the same quantity of goods. (What labour acquires through engagement in production depends on the rate of wages relative to the price of output.) LA2 (labour of acquiring through exchange) is also, again for the reason that the price of X has risen relatively to the wage of labour, higher at 2.4 labour. Thus, labour embodied in one X (still 2 labour) is less than labour commanded (now 2.4 labour); LA1 and LA2 remain equal (by either means of acquisition, X now costs more in terms of labour.)

We have no doubt that the above is a correct description of the relationships among labour embodied, labour commanded and labour of acquiring. That is not however how Peach understands these relationships. We reckon his interpretation is mistaken. It would appear that he misunderstands the implications of the introduction of a profit margin. Peach - incorrectly - thinks that Smith is similarly confused; in consequence Peach devotes much of his paper to constructing and attributing to Smith an entirely imaginary strategy intended to enable escape from the consequences of a supposed mistake. The upshot is that we are asked by Peach to believe that, in employing that strategy, Smith deliberately turned himself into a proponent of the labour theory of exchange value.

What, then, is Peach’s mistake? Peach takes the incorrect view that in the commercial society when prices are not equal to labour-embodied, LA1 and LA2 are not the same – indicating that the labour cost of acquiring by production is no longer the same as the labour cost of acquiring by exchange. Thus Peach (pp.394ff):

It is only in the “early and rude state” that the “toil and trouble of acquiring” a commodity in the sense of producing that commodity is equal to the labor commanded by that commodity. But the labor commanded by a commodity can also be interpreted as the “toil and trouble of acquiring” through purchase or exchange. It is in the “early and rude state”, and this state alone, that the “labor of acquiring” through production (LA1) is equal to the “labor of acquiring” through purchase (LA2); if I wish to acquire (purchase) a commodity that has been acquired (produced) by ten days of labor, I must either exchange a commodity that I have produced in ten days, offer ten days of labor, or give the sum of money that I have previously received either for my commodity or my direct labor services. . . .
Once we depart from the “early and rude state”, the equivalence between LA1 and LA2, disappears along with the equality between labor embodied and labor commanded (the two pairings are different sides of the same coin).

On departing from the “early and rude state, we, on the contrary, as explained above, reckon the “labour of acquiring”– both through production (LA1) and through exchange (LA2) to be (in the terms of our example) exactly the same, at 2.4. But Peach takes LA1 (via production) to remain unchanged (at 2 units), while allowing that LA2 (via exchange) does increase to 2.4. As we read him, Peach is confusing the physical cost, in labour, of actually producing X, (which has not changed between the “early and rude state” and the “commercial state”) with the amount of labour for which X exchanges (against the now higher price of X) in the market. The quantity of output produced by labour (technologically determined) is, in the commercial society, no longer the same as the quantity of output with which labour is rewarded (socially determined).

To elaborate: what Peach fails to take into account is that while (in our model) two units of labour enter - in both situations - into the production of one unit of X, what labour “acquires” in the “commercial state” from the expenditure of that effort is not the whole output of the labour applied, but only what is left to the worker after the claims of capitalist (and landowner) have been met. In our example, two workers (paid £10) produce one unit of X (market value £12); but these two workers cannot buy with their wages the one unit of X on the production of which their efforts have been spent – they can (together) afford only 10/12 (83.3%) of a unit of X. The cost of acquiring one unit of X via labour expended in production is then not two units of labour, but more, in fact (12/10 x 2) = 2.4 units of labour. The values of LA1 and LA2 are, pace Peach, equal.

How, we may ask, has Peach come to make this error of supposing LA1 and LA2 to be unequal in the case of the “commercial” economy? Peach seems to imagine that the cost in labour of acquiring a commodity through production is determined by technological factors but unaffected by institutional conditions so that, in our illustrative example, if technology is unchanged between the early and rude and commercial states, the value of LA1 (labour of acquisition via production) is the same, irrespective of whether all output goes to labour or is divided amongst wages, profits and rents. But (as demonstrated above) that cannot be so: while the output produced by labour may be the same under different social conditions, payment for the “toil and trouble” involved is not: in the “commercial society”, same real cost in effort brings the worker a smaller real reward in produce than in the “early and rude state” (more real effort is required to purchase the same real reward). It is the relationship between capital and labour through conditions of employment in the industrial sphere that determines the share of output the worker takes home; in other words, with the price of output (X) in terms of labour, LA1, thus determined, workers enter the market with a certain purchasing power, corresponding to the quantity of X with which their labour has been rewarded; thus the value of LA2 is given by the value of LA1

But Peach seems to think that the value of LA2 is independent of the value of LA1 (with the latter presumably taken to be fixed according to the technological conditions common to both the
“early and rude state” and the “commercial society”. Having remarked that “Once we depart from
the ‘early and rude state,’ the equivalence between LA1 and LA2 disappears” Peach goes on to
say, “whether [goods] are ‘cheap’ or ‘dear’, whether their real price is low or high, now depends
entirely on LA2; on the length of sacrifice of ‘ease, liberty and happiness’ that laborers (and they
alone) must endure to earn sufficient wages to enable them to ‘acquire’ in the sense of purchase of
commodities.” (Emphasis added)

When Peach says all “depends on LA2” he is surely describing the implications of LA1 – the
terms on which, in the context of production, labour is able to capture a share of output? Peach is
of course correct in stating that the “real price of labour” corresponds to workers’ ability to
‘acquire’ in the sense of purchase commodities – but, as we understand the situation – workers’
ability to purchase commodities derives from their ability to capture a share of the output they
produce; that ability is determined by the relationship of employers and employees in the labour
and the relevance of buffer stock management combined with the creation of a new reserve market,
and is reflected in the value of LA1. If Peach had admitted that to be the case, then he would have
accepted that, in the “commercial society” the values of both LA1 and LA2 are affected by the
difference in distribution between the “early and rude” and “commercial” states of society; in the
latter situation, the terms on which labour can acquire goods – via trade and via direct effort –
have turned against labour, because of the appearance on the scene of capitalist employers.
Peach’s differentiation of LA1 from LA2 in fact appears to be redundant.

This mistake on the part of Peach – to suppose that LA1 is not the same as LA2 in the general case
of the “commercial” economy - is the key to his “Reconsideration” of Adam Smith’s theory of
real value. It is on account of this misunderstanding that Peach takes it upon himself to rewrite
Smith’s theory so as to deal with what he perceives as an anomaly – the supposed inequality of
LA1 and LA2 in the case of the “commercial” economy. Perceiving this inconsistency, Peach has
doubts about the propriety of using the labour-commanded measure, and suspects that Smith
likewise became uncomfortable about using it. Peach observes (p.396):

> Labour commanded now presents itself as a measure of real price or real value
interpreted either in the second sense of labor of acquiring (of purchasing by
laborers) or a command over living wage-labor. But, it has also become ill-suited to
the task of equating real price to the first concept of labor of acquiring: the labor
expended on a commodity’s production.¹

Peach, believing that Smith was accordingly unhappy with the labour-commanded measure of
value, and wondering why Smith bothered at all to measure real values in terms of labour
commanded, suggests (p.97) that, in doing so, he may have had an unannounced ulterior motive:

> “[T]he first concept of labour of acquiring” (LA1): Peach is missing the point as regards whose labour (?)
acquires what (?) benefit. In the case of the “commercial society”, labour expended on a commodity’s production
by the workers is not sufficient (given wages) to buy all of that production: the society as a whole buys it and
benefits, but labour has to share the benefit with capital and land.

¹
Whatever the point . . . of measuring the (changing) real prices of individual commodities in the advanced commercial society – something which was categorically part of Smith’s agenda – one can scarcely imagine that it was principally to associate real prices with labor embodied. But that is exactly what he attempted to do.

At this point, given Peach’s contentious interpretation of what Smith was trying to do, we should - in order not to lose our bearings - recall how Smith did employ labour-commanded as a measure of real value and subsequently introduced “corn-commanded” to supplement the labour-commanded measure. Despite Peach’s puzzlement as to the point of measuring real commodity prices in the advanced commercial society, Smith explains (in a passage in fact quoted by Peach!) precisely why it may be of interest to measure and compare real values.

In such a work as this . . . it may sometimes be of use to compare the different values of a particular commodity at different times and places, or the different degrees of power over the labour of other people which it may, upon different occasions, have given to those who possessed it. (I, v, 22)

Smith notes that it can be of practical importance to know real values change over time. He explains that it may make a significant difference to the meaning of a long-lasting contract whether an obligation is specified in real or nominal terms. The labour-commanded measure makes possible comparisons of real values over time. He goes on to make the point that if we wish to estimate how real values have altered over a long period of time, it may not always be practicable to make direct use of the labour-commanded measure – the problem being that the price of labour at distant dates (as required for comparison with contemporaneous commodity prices) is not always knowable. However, he suggests a way round the problem.

This is where Smith’s alternative “corn-commanded” measure comes into the picture. Smith’s proposal is to use the well-documented price of corn as a proxy for the price of labour, a proposal justified by the fact (as Smith understands it to be) that over the long run the price of corn (the main element in the subsistence of labour) has moved similarly to the price of labour. Thus Smith (I, v, 15): “Equal quantities of labour will, at distant times, be purchased more nearly with equal quantities of corn, the subsistence of the labourer, than with equal quantities of gold and silver, or perhaps of any other commodity.”

The convenient implication of this virtually constant price relationship for Smith is that, with regard to understanding past conditions, with the price of labour lost in the mists of time, the price of corn may be taken as a proxy for the missing price of labour. That is to say, changes in the real value of other commodities may be measured in terms of the quantity of corn commanded, when it is impossible, for want of data on wages, to do so directly by reference to the quantity of labour commanded. Thus Smith (I, xi, e): “. . . we can better judge of the real value of silver, by comparing it with corn, than by comparing it with any other commodity, or sett of commodities.”
We may illustrate Smith’s use of corn-commanded as a proxy for labour-commanded. He shows (I, xi, o, 9) how, over three centuries, the real value (cost) of “the finest cloth” has been dramatically reduced. The price per yard in the year 1487 is put at sixteen shillings and its late eighteenth century equivalent at a guinea; but the real cost of cloth, measured in terms of wheat (as a proxy for its labour-commanded cost) Smith reports as having fallen from “two quarters and more than three bushels of wheat” to a mere fraction of its earlier price – three quarters of a bushel.

Smith’s use in that way of the corn measure seems to us entirely straightforward, but Peach will not have it so. He proposes another reason for Smith’s switching from labour-commanded to corn-commanded. As mentioned, Peach holds that Smith was not reconciled to using his own labour-commanded measure of real value: instead - as Peach interprets his thinking – he continued to hanker after the labour-embodied criterion. Thus, having already attempted to blur the distinction between labour commanded and labour embodied (as we describe below), Smith, Peach alleges (p.399), goes further along that road by transforming the proxy corn-commanded measure of value into an alternative labour-embodied standard of value.

To obtain a more robust association between real price/value and labour embodied it would be necessary to make further, more restrictive assumptions. And that is what Smith did. Hence his switch . . . from labor commanded to corn commanded as the real measure, and, more pertinently, his assumption . . . that corn is produced with nearly equal quantities of labor.

According to Peach, Smith progresses from labour embodied to labour commanded, and then from corn-commanded to labour embodied – by way of the fact that corn-commanded is supposed to correspond to a nearly constant quantity of labour embodied. Peach jumps on Smith’s assumption that, over the long term, “corn is produced with nearly equal quantities of labour”: here, he thinks is the all-significant give-away that Smith had come to maintain that real value consisted in labour embodied, not in labour commanded. Peach’s contention is that, in supposing the labour input into corn production to be effectively constant, Smith, for the purpose of making comparisons of value, was in fact deliberately replacing the labour-commanded standard (or its proxy, the corn-commanded standard), by the quantity of labour embodied in corn as a measure of real cost. From that perspective, the real cost or value of a commodity is not given by the amount of labour which has to be paid for its acquisition, but by (something quite different) the quantity of labour embodied in the commodity. Using the procedure Peach attributes to Smith for the purpose of estimating changes in real value over time, changes in the price of a particular commodity would be compared with the price of the constant quantity of labour embodied in corn, thereby revealing in terms of labour-embodied - rather than in terms of labour-commanded – changes in the real value of the commodity in question.

Peach is categorical that Smith was intentionally going back to the labour-embodied theory of real value. Peach argues that, if for the purpose of using corn-embodied simply as a proxy for
labour-commanded Smith had no reason to emphasise that corn was produced over time using “nearly equal quantities of labour”; Smith, he believes, must have had a particular motive in doing so. The following is his interpretation (p.401) of what Smith was doing:

The significance of the supererogatory assumption of nearly constant quantities of labor in the production of corn is that it signals the transition from the use of corn as a proxy for labor commanded alone to its additional use and, in a remarkable twist, its principal use - as a measure of labor embodied. Smith had transformed his real measure into a Ricardo-type construct, defined by a (nearly) constant quantity of labor expended on its production, which could be used to identify changes in the real prices or real values of other commodities (particularly silver) with changes in the quantity of labor expended on their production.

What, according to Peach (p.401), Smith gains by this transformation of his “real measure” is correction of the supposed anomaly of the inequality of LA1 and LA2 when labour-embodied values do not obtain.

The two notions of labor embodied and labor commanded were thereby conflated or, put another way, Smith had stipulated the conditions which might allow him to re-capture the double meaning of real price as a reference to both concepts of “difficulty of acquiring”, as was the case in the “early and rude state.”

Now, claims Peach, with the use Smith made of the nearly constant labour cost of corn, the situation has been corrected: LA2 has been brought into alignment with LA1 beyond the “early and rude state.” So, according to to Peach, in this complicated way, Smith reached a position in which he was able to say, that, under all circumstances, the real costs in labour of acquiring a commodity are the same, whether of acquiring that commodity through actual production, or of acquiring it via exchange on the market. And those real costs of acquisition correspond to the quantity of labour embodied in the commodity.

We reckon that, in seeking to equate LA1 and LA2, and believing the value of LA1 to correspond to the quantity of labour required for production as given by technology, irrespective of social conditions, Peach understood that it had to be demonstrated in the case of the “commercial” economy that the value of LA2 conformed to that of LA1. Properly, however, for consistency with Smith’s theory, the opposite was necessary - it needed to be shown that LA1 took the same labour-commanded value as Smith would have attributed to LA2.

Peach sums up on what he believes Smith had done (p.404):

Smith had moved beyond the conflation of (changes in) labour embodied and labour commanded, achieved . . . by the specification of a nearly constant labor input to the corn commanded standard, to a complete switch in the real measure away from corn commanded or labour commanded to labour embodied alone. Ultimately, the very
meaning of real value or real price was identified with embodied labour – with the labour of acquiring through production – in disregard for the labour commanded measure of real price or its corn commanded “proxy”. But why was he led to introduce such a blatant inconsistency into his theoretical system? The answer, I suggest, is to be found in the importance he attached to labor embodied as the source and determinant of changes - in all stages of society.

To continue with Peach’s summing-up: Peach alleges (p.405), that Smith (who normally took the greatest pains to make his meaning clear to readers) decided for some reason not to advertise his commitment to the labour-embodied theory.

Smith did not boldly announce his continuing use and attachment to the labor theory but, then again, neither did he explicitly announce his adherence to any other theory of exchangeable value. However, the lengths to which he went to associate (changes in) “real price/real value” with (changes in) labor embodied, ultimately at the cost of abandoning his own declared choice of “real measure”, is evidence of the importance he attached to expended labor as the underlying determinant of exchangeable value.

Where exactly does all this leave us? It remains – at least to the present reader – unclear how Peach reconciles – if indeed he does - Smith’s acceptance of the inequality of commodity prices with labour costs in the “commercial” society with his reconciliation of LA1 and LA2 on the basis of both measures corresponding to a quantity of labour embodied (as in the “early and rude state”). There would be no problem if that reconciliation as based on the fact that both LA1 and LA2 correspond to labour-commanded – but that is clearly not Peach’s meaning. Are we to take it then that this indicates an inconsistency in Smith’s (reconstructed) theoretical scheme? Perhaps that is what Peach is getting at when, referring (p.384) to Smith’s direct identification of real value and real price with quantities of expended labor, he comments, “That identification, is evidence of an inconsistency in his theoretical approach, but alongside Smith’s other attempts to maintain a link between real price/real value and expended labour it also testifies to the significance of the labor theory in his work.”

In short, Peach holds that Smith surreptitiously abandoned labour-commanded as the measure of value appropriate to the modern “commercial” society and attempted to extend the labour-embodied measure to a world in which profits and rents share the value of output with wages. We are not persuaded that Smith actually did make such an attempt. It is difficult to believe that Smith could have imagined the labour-embodied theory to be of general applicability. As we have already observed, when profits and rents cause a divergence between costs of labour (direct and indirect) and the (equilibrium) prices of commodities, it is only on the implausible condition that commodity values are proportionate to labour embodied, that (a version) of the labor-embodied theory can be retained. We cannot agree with Peach that Smith may have thought that to be the typical state of affairs. Nor, alternatively, are we convinced that, as Peach seems to imply, with the supposed conflation of LA1 and LA2, Smith eventually, and
inconsistently with adherence to the “proportionate” version of the labour theory, took relative values as being equal to labour embodied.

4. Smith's (alleged) use of the labour-embodied theory of value

The third element of Peach’s “reconsideration” of Smith’s theory of value consists of a number of demonstrations intended to show that Smith did in fact employ the labour-embodied theory of value.

Consider instances highlighted by Peach: first, on the subject of silver mining (p.397). There can be no doubt that on this matter, Smith, initially, was thinking in terms of values as corresponding to labour-commanded, not labour-embodied. Smith explains that “as it cost less labour to bring these metals from the mine to the market, so when they were brought thither they could purchase or command less labour.” (Emphasis added.) Peach’s understanding, however, is that Smith soon drifted away from the labour-commanded position. In fact Peach makes the point that, on his reading, such treatment is the exception on Smith's part: he holds that, generally, "it is [by Smith] simply taken for granted that changes and differences in embodied labour are the causes of changes and differences in real prices . . . without any explicit mention of labour commanded."

Attention is drawn also to illustrations concerning the relatively high costs of large fishing vessels and the low costs of water transport. Peach complains that Smith appears to attribute such price differences solely to differences in labour embodied, ignoring the fact that (in terms of labour commanded) prices must necessarily embody an allowance for profit and rent as well as cover costs of direct and indirect labour. He comments (p.399):

   From the passages considered above it is evident that Smith was invoking changes and differences in embodied labor as the principal determinant of changes and differences in money prices and exchangeable value. Equally, if not more significant is the procedure he was adopting, by expressing the latter changes and differences as the result of changes and differences in real prices/real values as if these were a unique function of quantities of embodied labor.

We think Peach's response unjustified. We do not accept that the instances cited indicate a tendency on the part of Smith, whether by carelessness or (or as Peach suspects) by design, to slip back to a labour-embodied explanation of prices. The fact is that, even in the case of a "commercial society", any increase in necessary labour inputs, direct or indirect, will of course increase cost of production and (ceteris paribus) the price of a commodity. We read Smith as meaning nothing more than that; it was hardly necessary that he should, with every example, have stated explicitly (as he had actually done earlier), that higher employment of labour would affect commodity prices not only directly via a larger wage bill, but would imply a further price increase as required to allow for profit on the increased capital invested. That could surely be read as understood.
But we are not yet at the end of Peach’s re-interpretation of Smith as expounding a labour-embodied explanation of value. Peach examines at length (pp.402-3) Smith’s analysis of situations in which the price in silver of corn differs, at the same time, from one place to another. Smith considers two instances: that corn is dearer in large towns than in the countryside, and that Polish corn is dearer in Amsterdam than in Danzig (sic). We understand Smith as making the simple point that in both instances, where corn is dearer, the explanation is that more labour is required to deliver corn to a town, or corn to Amsterdam than to make it available in the countryside where it is grown, or in Danzig from whence it is shipped. Smith notes that it cannot be that the corn price difference reflects a different real value of silver between the places in question: there is no reason for that to be so. As Smith put it (I, xi, e):

It does not cost less labour to bring silver to Amsterdam than to Dantzick, but it costs a great deal more to bring corn. The real cost of silver must be very nearly the same in both places; but that of corn must be very different.

We take Smith’s explanation as straightforward and acceptable – entirely consistent with a labour-commanded interpretation of real value. The difference in money values (labour commanded) can be due only to the differing real costs of supplying corn to these different markets.

But Peach finds Smith’s account to imply a labour-embodied perspective – incompatible with his labour-commanded / corn commanded measure of value. Peach objects:

But, silver is “really cheaper” (its real price/real value is lower) in “great towns” because, on Smith’s own criterion, it commands less corn. . . . Now unwilling to follow the logic of his own corn-commanded measure, Smith has identified “real dearness” and “real cheapness” not with the results of his “measure”, which gave the “wrong” result, but directly with the quantities of labour expended in production.

Peach adds that this (mistake, he alleges) was not “a mere slip” of Smith’s pen, as is indicated by the fact that he makes the same “mistake” in both his town/country and Amsterdam/Danzig examples. That is to say, Peach reads Smith as abandoning his corn-commanded explanation of values - which indicates that silver is cheap in terms of corn - and asserting a labour-embodied explanation to the effect that it is the high price of corn that needs to be explained, and that the relevant explanation lies in the greater labour input required to provide corn to Amsterdam and to large towns.

Our response is that it is Peach, not Smith, who is guilty of confused thinking. In this case, labour-commanded (which is what we believe Smith uses), not corn-commanded (as employed by Peach), is the appropriate measure of real value. For one thing, there is no need to resort to the alternative corn-commanded measure - the relevant prices of labour are known; secondly, it is inappropriate to use corn-commanded as a proxy for labour commanded when what is at issue is the variation of the price of corn relative to a constant price of labour. Furthermore, we find that
Peach again commits the fundamental error of supposing that when Smith explains that the cost of a commodity has increased because of the application of a greater quantity of labour to its production, he must be thinking in terms of the labour-embodied theory of value. To repeat, there is no need to suppose that to be so. As mentioned above, while an increase in direct and/or indirect labour inputs would certainly, in the “early and rude” state of society raise the price of a commodity in direct proportion to the increase in labour embodied, under modern conditions, the increased input of labour would have not only a direct impact on costs and price, but in addition would induce a further increase in price in order to maintain the mark-up for profit at the going rate. There is no justification for saying that Smith is abandoning the labour-commanded measure of value in favour of labour-embodied.

Regarding yet another contemporary phenomenon, Peach similarly (p.403-4) takes issue with Smith, this time over meaning of the “high price of corn” as experienced in Britain in the latter part of the eighteenth century. Smith observes (I, xi, g):

> The high price of corn during these ten or twelve years past, indeed, has occasioned a suspicion that the real value of silver still continues to fall in the European market. This high price of corn, however, seems evidently to have been the effect of the extraordinary unfavourable circumstances of the seasons, and ought therefore to be regarded, not as a permanent, but as a transitory and occasional event.

Peach disagrees:

> Yet, the real value of silver had continued to fall in the sense that it commanded less corn. He [Smith] was again falling back upon a direct identification of silver’s real value with the quantity of labour expended on its production.

And again we ask, why should Peace take exception to Smith’s interpretation? By the labour-commanded measure the real cost (in labour) of corn has been high over these years, because of a succession of bad harvests. In the circumstances it is inappropriate for Peach to adopt a corn-commanded perspective, and wrong to conclude that, with corn being dear in terms of silver, Smith was adopting a labour-embodied explanation of the price of silver.

A final example over which Peach (pp.403-4) is critical of Smith relates to the “real recompense” of labour. Again it seems to us that what Smith says makes sense and that Peach is confused.

Peach quotes Smith (I, xi, g):

> In Great Britain the real recompense of labour . . . the real quantities of the necessaries and conveniences of life which are given to the labourer, have increased considerably during the course of the present century. The rise in . . . money price seems to have been the effect, not of any diminution in the value of silver . . . but of a rise in the real price of labour.
Yet again, Peach objects:

It is almost as if Smith had forgotten, or did not wish to remind himself, that labour commanded was his own choice of real measure. If the real and nominal price of labour has “increased considerably”, then corn-commanded would fail in its role as a proxy and (logically) the only correct inference is that there has been a “diminution in the (real) value of silver” (it commands less labour). Again, Smith was refusing to accept the logic of his own position, this time in direct and explicit contradiction to his “primary” conception of real value as labour-commanded.

Peach revealingly comments (p.403):

In these circumstances, however, it would have been theoretically justifiable and practicable (since the recent data were known) to have reverted to the labor commanded form of the standard. But that would not have helped the labour theory cause. (Emphasis added.)

As we read Smith, he is observing that the real value of wages has increased over the current century and so also has the money wage. He makes the point that this increase in the money price of labour should not be put down to a general rise in money values: it is in fact an increase in the “real recompense” of labour. Referring to the rise in the money price of labour Smith explains that as corresponding to an increase in real earnings, not the effect of a general rise in silver prices. Smith is not intending to deny that wages now buy more silver; at the same time – a fact which Peach seems to overlook – silver is no cheaper with respect to anything else; there has not been a general “diminution in the value of silver”. We think Peach has got it wrong in alleging that Smith was “refusing to accept the logic of his own position . . . in direct and explicit contradiction to his primary conception of real value as labour-commanded.” Peach is blinded by his misunderstanding that Smith has abandoned labour-commanded for labour-embodied.

5. Conclusion

Peach has failed to understand the implications of the labour-commanded measure of value when used in the context of an economy in which labour shares output with capitalists and landlords. Peach mistakenly supposes that this implies an anomalous situation in which (to employ Peach's terminology) “the labour of acquiring goods through exchange (LA1)” exceeds “the labour of acquiring goods through production (LA2)”.

But in reality, no anomaly exists: it is only Peach who thinks it does. The real cost to workers is the same whether goods are acquired by direct labour or by exchange. Peach seems to interpret Smith as likewise worried by the existence of the supposed anomaly and to have struggled to find a way of escaping it. The convoluted analysis he attributes to Smith, by which labour-commanded is transformed into labour-embodied as the chosen standard of value, represents Peach's attempt to explain how Smith solved a non-existent problem – that of achieving a reconciliation of LA1 and LA2 in the general case of the “commercial” economy. Peach’s “Reconsideration,” or rather reconstruction, of Smith’s analysis
is not required. But it is not clear how Smith is supposed, on Peach’s reading, to square a leaning towards a “proportional” interpretation of the labour theory with his supposed reconciliation of the two meanings of Peach’s “labour of acquiring” measure as signifying labour-embodied.

Terry Peach represents Adam Smith’s treatment of value as confusing and apparently inconsistent – and much more complicated than we believe it to be. If that was really the character of Smith’s analysis in the Wealth of Nations we doubt if that volume could have enjoyed the respect and influence that, over generations, it has received.

References


