To start with, it may be pointed out that both Ricardo and Malthus were concerned with relative value of commodities and not with absolute value. Towards the end of his life, of course, Ricardo did devote his attention to the problem of absolute value but he was not able to put forward any comprehensive explanation for its determination. In fact Ricardo felt somewhat perturbed on not being able to propound a comprehensive theory of absolute value and that is why he even pointed out that his theory of value was not quite satisfying to him and therefore he wished that some able pen should take up the business and finish with it.¹ The explanation of this depression on the part of Ricardo lies only in the incomplete version of his theory of absolute value. However, for all practical purposes, Ricardo's theory of relative value was the one which he developed to the best of his ability and he upheld it till the end of his life. Malthus, on the other hand, never felt concerned with the theory of absolute value and was all through

1. "I am not satisfied with the explanation which I have given of the principles which regulate value. I wish a more able pen would undertake it—the fault is not in the inadequacy of the doctrine to account for all difficulties, but in the inadequacy of him who has attempted to explain it." Works and Correspondence of Ricardo Vol. VIII p. 142.
interested in the theory of relative value.

Before we proceed with the main controversy between Ricardo and Malthus on the theory of value, it is appropriate to present the ideas of the two in brief but concise form so that we are able to comprehend them properly. This is necessitated particularly because of large variety of interpretations given by different economists to Ricardo's theory of value which make the understanding of the theory somewhat difficult.

Ricardo's exposition of his theory of value was greatly influenced by his desire to correct what he believed to be the fallacies of Adam Smith's theory. This latter theory, in brief, was that in the early stages of society, what Adam Smith calls the "early and rude state of society", the relative value or the natural price of the commodities was determined solely by labour necessary for acquiring those commodities. But as soon as capital is accumulated in the hands of certain persons and as soon as land becomes private property, the relative values of commodities are equal to their cost of production, which is arrived at by a process of adding up the wages, profit and rent—the rewards of the three factors of production, labour, capital and land respectively. Any cause which increased or decreased each of these component parts—wages, profit and rent—increased or decreased the natural price or the relative value of the commodities in which the factors entered.

2. Cf. Works and Correspondence of Ricardo, Vol. VII p. 100

Ricardo criticises Adam Smith for limiting the rule that commodities exchange according to the amount of labour required for their production to "that early and rude state of society, which precedes both the accumulation of stock and the appropriation of land" without analysing the effects of the accumulation of capital and the appropriation of land on relative value. 4

According to Ricardo, in the early stages of society when only labour is required to produce commodities, there is a very easy and obvious solution to the determination of the relative values; the relative values of commodities will equal the relative quantities of labour expended on their production, and will be independent of the level of wages. Ricardo says:

"In the early stages of society, the exchangeable value of these commodities, or the rule which determines how much of the one will be given in exchange for another, depends almost exclusively on the comparative quantity of labour expended on each.... It is natural

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* The first two editions of Ricardo's 'Principles' read 'depends solely' in place of 'depends almost exclusively'. As will be shown in the chapter On Measure of Value, this change was necessitated by Ricardo's change in the Standard of Measurement.
that what is usually the produce of two day's or two hour's labour, should be worth double of what is usually the produce of one day's, or one hour's labour.\(^5\)

The question arises what happens to the relative values if in the production of commodities different types of labour are used in different proportions. To Ricardo, this is no cause of the variation in the relative value of commodities because the market always establishes some scale of relative productiveness of labour in accordance with the skill and training of the occupation, and the relative degree of estimation in which the different kinds of labour are held, once formed, does not change over a period of time.\(^6\) Hence a rise or fall of wages will affect all commodities proportionately and therefore leave relative values unaffected.

It could be pointed out that even in the most primitive society some capital, if only in the form of implements and tools, would be necessary to assist the labour, and if that is the case would not this fact also affect relative values. Ricardo tackles this case by viewing fixed capital as previously expended labour and points out:

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"the exchangeable value of the commodities produced would be in proportion to the labour bestowed on their production; not on their immediate production only, but on all those implements or machines required to give effect to the particular labour to which they were applied."\textsuperscript{7}

It follows that in the early stages of society the rule of embodied labour determining relative values was of universal application. However, the real question which perturbed Ricardo was not the determination of relative values in the primitive stages of society but, in his words:

**to determine how far the effects which are avowedly produced on the exchangeable values of commodities, by the comparative quantity of labour, are modified or altered by the accumulation of capital and the payment of rent.**\textsuperscript{8}

As regards the appropriation of land and the payment of rent, it does not affect the general principle according to which

\textsuperscript{7} Works and Correspondence of Ricardo, Vol. I p. 24.
\textsuperscript{8} Ibid, p. 23 note.

** The effect of the appropriation of land is considered by Ricardo in his chapter 'On Rent', and in the chapter 'On Value' he deals only with the accumulation of capital.
the relative values of commodities are determined by the amount of labour expended in their production. This is so because the quantity of labour which settles the relative value of a commodity is not the average quantity required for the production of the various units of the commodity but the quantity required for the production of the unit produced with the greatest difficulty; and since rent is the surplus of the produce got from the superior, rent-bearing plots, rent does not enter into the cost of production. Ricardo says:

"The exchangeable value of all commodities,
.....is always regulated, not by the less quantity of labour that will suffice for their production under circumstances highly favourable, and exclusively enjoyed by those who have peculiar facilities of production; but by the greater quantity of labour necessarily bestowed on their production by those who have no such facilities, by those who continue to produce them under the most unfavourable circumstances, meaning by the most unfavourable circumstances, the most unfavourable under which the quantity of produce required, renders it necessary to carry on the production." 9

9. Works and Correspondence of Ricardo, Vol. I p.73
"that corn which is produced by the greatest quantity of labour is the regulator of the price of corn; and rent does not and cannot enter in the least degree as a component part of its price." 10

Thus Ricardo dislodges land from standing alongside labour as a factor contributory to value, because the payment of rent is itself entirely dependent on value.

So far as the accumulation of capital is concerned, accumulation by itself does not affect the principle of labour - expended if it does not lead to the changes in the fixity and durability of capital employed in the production of commodities. However, Ricardo realises that in the real world accumulation of capital is bound to operate in different ways in the production of different commodities. This leads to another cause, besides the quantity of labour necessary to produce the commodities, that affects the relative values; this cause is the rise or fall in the value of labour viz., wages. The use of the greater amount of fixed capital or fixed capital of greater durability in the production of one commodity relative to that of the other will affect the relative values in such a way that the rise in the wages (or what to Ricardo also means the fall of profits) will

10. Ibid., p.77
lead to a fall in the relative value of the commodity in the production of which fixed capital of greater amount and/or fixed capital of greater durability is employed than that of the commodity in the production of which fixed capital of smaller amount and/or fixed capital of smaller durability is used. Ricardo says:

"This difference in the degree of durability of fixed capital, and this variety in the proportions in which the two sorts of capital (i.e. fixed capital and circulating capital) may be combined, introduce another cause, besides the greater or less quantity of labour necessary to produce commodities, for the variations in their relative value—this cause is the rise or fall in the value of labour." 11

and therefore:

"the accumulation of capital, by occasioning different proportions of fixed and circulating capital to be employed in different trades, and by giving different degrees of durability to such fixed capital, introduces a considerable modification to the rule,

11. Ibid., p.30
which is of universal application in the early states of society." 12

This shows the 'curious effect' which a rise of wages produces viz. a rise of wages lowers the prices of those commodities which are chiefly obtained by the aid of machinery and fixed capital." 13

Ricardo also admits that the fact of circulating capitals used in the production of the commodities being of different durabilities would also have the same effect as different fixity or durability of fixed capital. This would explain why some commodities e.g. timber and wine, increase in exchangeable value as they advance in age. Ricardo says:

"The same result takes place if the circulating capitals be of unequal durability. If from the nature of two different trades, in which equal capitals are employed, one manufacturer could not bring the commodity he produced to market in less than one year, while the other could bring his there, in three months, the commodity of the first would fall in relative value to the second, with every rise of wages and fall of profits. It must be unnecessary to go into further calculations to prove this to be true, as it rests precisely on the same principle as the case

12. Ibid., p.66.

13. Correspondence of Ricardo, Vol. VII p.82
already considered, namely, the different degrees of durability of two equal capitals.\footnote{14}

It is obvious that Ricardo, by admitting the effect of the ratio of fixed capital to labour, the durability of fixed capital, and the rate of turnover of circulating capital (the time element) on the relative values of commodities, admits the productive role of capital.

Ricardo, however, believes that changes brought about in the relative value of commodities by fluctuations of wages or profits are of very little importance as compared to those brought about by changes in the quantity of labour expended. Hence although we should not ignore to take into account the effect of a rise or fall of wages on the relative value of commodities, we should also not give much importance to this cause. He says:

".....this cause of the variation of the commodities is comparatively slight in its effect.....The greatest effects which could be produced on the relative prices of these goods from a rise of wages, could not exceed 6 or 7 per cent; for profits could not, probably, under any circumstances, admit of a greater general and permanent depression than to that amount.

\footnote{14. Ibid., pp. 338-339.}
In estimating, then, the causes of the variations in the value of commodities, although it would be wrong wholly to omit the consideration of the effect produced by a rise or fall of labour, it would be equally incorrect to attach much importance to it. ¹⁵

Malthus is not satisfied with Ricardo's theory of value. In his Principles of Political Economy he writes:

"If to this cause of variation (i.e. difference in the degree of durability of capitals) we add the exception noticed by Mr. Ricardo, arising from the greater or less proportion of fixed capital employed in different commodities, the effects of which would shew themselves in a very early period of savage life, it must be allowed that the rule which declares "that commodities never vary in value unless a greater or less quantity of labour be bestowed on their production", cannot possibly, as stated by Mr. Ricardo, be "of universal application in the early stages of society." ¹⁶

¹⁵. Works and Correspondence of Ricardo, Vol. I p.36.
Malthus himself explains exchangeable value in terms of supply and demand. He believes that the principle of supply and demand is of universal application, so much so that it is difficult to find any instance of change of price —natural or market, permanent or temporary—which cannot be explained in terms of this principle. He says:

"Natural and necessary prices appear to be regulated by this principle, as well as market prices, and the only difference is, that the former are regulated by the ordinary and average relation of the demand to the supply, and the latter, when they differ from the former, depend upon the extra-ordinary and accidental relations of the demand to the supply." 17

Malthus cites a number of examples from what he calls 'actual experience' to demonstrate the operation of the principle of supply and demand. But the most striking illustration that he suggests is the artificial value which is given to bank notes by limiting their supply. 18

17. Ibid., pp.84-85.
18. Cf. Ibid., pp.77-78.
Malthus admits that his demand and supply approach can be interpreted as a principle of cost of production, but points out that in that case the cost of production will be different from that of Ricardo which excludes the rent of land. He says:

"It may be said, perhaps, that even according to the view given of demand and supply in the preceding section, the permanent prices of a great mass of commodities will be determined by the cost of their production. This is true, if we include all the component parts of price stated by Adam Smith, though not if we consider only those stated **by Mr. Ricardo.**"¹⁹

However, Malthus's emphasis upon demand is so much that he in effect relegates cost of production to a secondary position. He says:

"...any alteration in the demand and supply quite overcomes for a time the influence of

** Ricardo remarks: "By cost of Production I invariably mean wages and profits, Adam Smith includes rent." Works and Correspondence of Ricardo, Vol II p.42.

this cost; and.....the cost of production itself only influences the prices of these commodities as the payment of this cost is the necessary condition of their continued supply. 20

There is, of course, an explanation of Malthus's stress upon demand. As he was pre-occupied mostly with the problem of application of economic theory to the practical aspects, Malthus was primarily interested in the problems of the short run. It is obvious that in the short run the demand aspect can hardly be over-emphasised. In fact, Ricardo also never denied the importance of the demand in the short-run; but his main pre-occupation was with the long-run and therefore he greatly emphasised the supply aspect. This difference in the emphasis of the two great economists at least partially explains their difference in approach to the relative value of commodities. In fact, both Ricardo and Malthus were aware of this difference. Thus in a letter to Malthus, Ricardo wrote:

"It appears to me that one great cause of our difference in opinion, on the subjects which we have so often discussed, is that you have

20. Ibid., pp. 74-75.
always in your mind the immediate and temporary effects of particular changes — whereas I put these immediate and temporary effects quite aside, and fix my whole attention on the permanent state of things which will result from them. Perhaps you estimate these temporary effects too highly, whilst I am too much disposed to undervalue them. To manage the subject quite right they should be carefully distinguished and mentioned, and the due effects ascribed to each."21

Malthus's reply to this was:

"I agree with you that one cause of our difference in opinion is that which you mention. I certainly am disposed to refer frequently to things as they are, as the only way of making one's writings practically useful to society....Besides I really think that the progress of society consists of irregular movements, and that to omit the consideration of causes which

21. Works and Correspondence of Ricardo, Vol. VII p.120
for eight or ten years will give a great stimulus to production and population, or a great check to them, is to omit the causes of the wealth and poverty of nations —the grand object of all enquiries in Political Economy. ²²

It may be pointed out that there are substantial differences among economists, writing on the history of economic doctrines, about the interpretation of Ricardo's theory of value. It is obvious from the exposition of Ricardo's theory given above that Ricardo's theory of value is essentially a cost of production theory. We have seen that Ricardo admits that due to the differences in the amount of fixed capital and the different durabilities of the fixed and the circulating capital it is not only the amount of labour embodied in the production of commodities but also wages and profits that affect exchange values. In other words, Ricardo has presented the quantity of labour not as the sole regulator of relative value but as an important element of the cost of production. In fact one comes across quite a few passages in the writings of Ricardo, in particular in his Notes on Malthus, which support the contention that Ricardo held a cost of production theory of value.

²². Ibid., pp. 121-122
For instance he says:

"The real and ultimate regulator of the relative value of any two commodities, is the cost of their production, and not the respective quantities which may be produced, nor the competition amongst the purchasers." 23

Similarly Ricardo says:

"....difficulty or facility of production is not absolutely the only cause of variation in value there is one other, the rise or fall of wages, which though comparatively of little effect and of rarer occurrence yet does affect the value of commodities and must not be omitted in this important enquiry." 24

He also remarks:

"Natural price is another name for cost of production —while a commodity will sell

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in the market for its natural price or above it, will be supplied, the cost of production therefore regulates its supply.

Mr. Malthus says the supply regulates price, and the cost of producing the commodity regulates the supply. This is a dispute about words—whatever regulates the supply regulates the price.²⁵

Malthus's theory of value also is a cost of production theory. He has explicitly laid down that "the price of any exchangeable commodity, may be considered as consisting of three parts—that which pays the wages of the labourer employed in its production; that which pays the profits of capital by which such production has been facilitated; and that which pays the rent of land, or the remuneration for the raw materials and food furnished by the landlord."²⁶

Since neither Ricardo nor Malthus denied that the price of a commodity also includes returns to factors other than labour, both of them may be said to have put forward cost of production theory of value.

There is, however, an important difference also. It relates primarily to the concepts of the cost of production of the two. Malthus includes rent among the relevant components making up the cost, whereas Ricardo excludes it. In fact it is only Ricardo's

²⁵. Works and Correspondence of Ricardo, Vol. II pp.224-225. See also p.35, pp.48-49, p.66 and p.79

²⁶. T.R. Malthus, op.cit. pp.82-83
refusal to include rent among the components of the cost of production that makes one to doubt if his theory of value is a cost of production theory. However, if this fact could be a serious objection to interpret Ricardo's theory as a cost of production theory of value, the best that can be said is that Ricardo's theory of value is what has been called 'an empirical labour theory of value' i.e. a theory that the relative quantities of labour expended in the production of the commodities are the dominant determinants of the relative values. Ricardo indeed emphasised the quantity of labour bestowed on the production of the commodities as the most important determinant of relative value, but he never asserted the non-existence or irrelevance of non-labour costs.

The views of Ricardo and Malthus are also different as regards the proper measure of value. This aspect of their difference will be explained in detail in the next chapter.