Chapter III

ON MEASURE OF VALUE

The search for a perfect measure of value has exercised the minds of economists since earlier times. Adam Smith was led to the proposition that while labour content was not the regulator of value, labour was nevertheless the most acceptable constant measure of value. For Ricardo and Malthus, however, the subject became a matter of endless controversy. Both of them, of course, agreed that if there were some commodity which was invariable in value, any change in the ratio in which it exchanged for other commodities would show which of these commodities had risen or fallen in value and by how much. Thus Ricardo in the first edition of his Principles wrote that if any commodity could be found which was of an unvarying value it would be "eminently useful as a standard by which the variations of other things might be measured. Of such a commodity we have no knowledge, and consequently are unable to fix on any standard of value."1 Similarly, Malthus in his Principles of Political Economy remarked that "...a correct measure of real value in exchange would be very desirable cannot be doubted, .....but when we consider what a measure of real value in exchange implies, we shall feel doubtful whether any one commodity exists, or can easily be supposed to exist, with such

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properties, as would qualify it to become a standard measure of this kind. Whatever article, or even mass of articles, we refer to, must itself be subject to change."\textsuperscript{2}

It may be pointed out that when Ricardo says that we cannot fix on any standard of value and when Malthus says that it is doubtful whether any commodity possesses the qualifications to become a standard measure of value they mean a perfect standard—one that can measure changes of value with scientific accuracy. Both Ricardo and Malthus agree on the essential qualities of a perfect standard, namely, that it must itself possess value and that it must itself be invariable in value. The disagreement between the two, however, begins as soon as it comes to actually fixing on a commodity or, in other words, of defining the conditions of production of the commodity to be adopted as a standard for the purpose. Ricardo in Edition I of his \textit{Principles} defines these conditions as follows:

"...in this whole argument I am supposing money to be of an invariable value; in other words, to be always the produce of the same quantity of unassisted labour."\textsuperscript{3}

It may be pointed out that Ricardo, in the first edition of his \textit{Principles} admitted the existence of non-labour costs. But in that edition he acknowledged only two forms of variation of capital; different proportions of fixed and circulating capital

\textsuperscript{2} Malthus, op.cit., p.60.

\textsuperscript{3} Works and Correspondence of Ricardo, Vol.I p. 63.
and different durabilities of fixed capital. He had not yet
noticed the third form of variation of capital viz. the
different times it takes to market or, in other words,
durability of circulating capital to which his attention was
drawn, a little later, by Major Torrens. Consequently, in
dition II this was introduced as third form of variation.
Hence in edition I 'unassisted labour' meant labour unassisted
by fixed capital, with the implied assumption that the
period which all commodities took to produce and bring to
market i.e. circulating capital to circulate was a year.
In fact the qualification 'unassisted' is mostly implied in
Ricardo's argument in the first edition of his Principles. It
is indeed from this definition of invariable money that there
follows the striking result that ``commodities may be lowered
in value in consequence of a real rise of wages, but they
never can be raised from that cause.''
It is obvious that in
this passage 'value' refers to absolute value i.e. value measured
in the invariable standard. When Ricardo in ed.I speaks of
'relative value' he says that with a rise of wages some goods

7. Ibid., p.66. (The reason is that in the production of some
    commodities fixed capital enters while by assumption it
does not enter into the production of money.)
8. Ibid., p. 58.
will rise compared with others.

Malthus in his comments on ed. I of Ricardo's *Principles* wrote to Ricardo:

".....I still cannot agree with you that labour alone in the sense you understand it* is either in theory or fact the best measure of exchangeable value." 9

However at that time the question of the invariable measure of value proper had not come up for a discussion between the two. It is in fact in September 1819 that Malthus, apparently following up a conversation between the two, writes to Ricardo:

"If we suppose half an ounce of silver on an average to be picked up by a day's search on the sea shore, money would then always retain most completely the same value. It would always on average both cost, and command the same quantity of labour. The money price of labour could never permanently either rise or fall." 10

But Malthus pointed out, a little later, that when it comes to using this commodity produced by labour only for measuring the value of other commodities in the production of which labour and capital are both used, a difficulty would

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1* i.e. the quantity of labour embodied in the commodity.
arise from the fact that "scarcely any other commodity can reasonably be supposed to have required in its production exactly the same quantity of fixed and circulating capital employed for exactly the same time."¹¹

The next development is the publication, in April 1820, of Malthus's Principles of Political Economy. In this book Malthus draws attention to the case of commodities where the period of turnover of the circulating capital may be less than one year.¹² In such a case covering as Malthus suggests "a large class of commodities" prices will rise consequently upon a rise in the price of labour and fall of profits. Malthus says:

"......it cannot be correct to say, "that no commodities whatever are raised in exchangeable value merely because wages rise; they are only so raised when more labour is bestowed on their production, when wages fall, or when the medium in which they are estimated falls in value."

It is quite certain that merely because wages rise and profits fall, all that class of commodities (and it will be a large class) will rise in price, where, from the smallness of the capital empl-

¹¹. Ibid., p. 108.
oyed, the fall of profits is in various
degrees more than overbalanced by the
rise of wages."\textsuperscript{13}

Ricardo in his note upon this passage admits that he
had 'inadvertently omitted to consider' this case, and that
"Mr. Malthus is quite right in asserting that many commodities
in which labour chiefly enters, and which can be quickly brought
to market will rise in the value of labour."\textsuperscript{14} The 'correct
opinion' as Ricardo now states it is that, in consequence of
"a rise in the money price of wages, and a fall of profits,
so far from its being true that all other commodities would
also rise in price, there will be a large class which will
absolutely fall—some which will not vary at all, and another
large class which will rise."\textsuperscript{15}

As an extreme instance of the case to which Malthus
had drawn attention, he introduced the striking example of
silver picked up on the sea shore with the labour of one day
and therefore without either fixed or circulating capital—a
standard in terms of which 'no rise in the price of labour
could take place.'\textsuperscript{16}

At the time when third edition of Ricardo's Principles
was already in the press, Ricardo wrote to McCulloch:

\begin{enumerate}
\item\textsuperscript{13} Ibid., pp. 93-94.
\item\textsuperscript{14} Works and Correspondence of Ricardo, Vol.II p.64.
\item\textsuperscript{15} Ibid., pp. 62-63. P. Sraffa has correctly pointed out that
it is this concession on the part of Ricardo that marks the
transition on the standard of measurement between ed.II and
ed. III of Ricardo's 'Principles.'
\item\textsuperscript{16} First in a letter of 10 Sept.1819, Works and Correspondence
of Ricardo, Vol.VIII pp. 64-65, and then in his Principles
of Political Economy, Malthus, op.cit., pp.110-111.
\end{enumerate}
".....When I want to fix a standard of absolute value I am undermined whether to chose labour for a year, a month, a week, or a day."17

But he had already suggested to McCulloch in a letter of 13 June 1820:

"All the exceptions to the general rule come under this one of time, and as there are such a variety of cases in which the time of completing a commodity may differ, it is difficult to fix on any one commodity which may properly be chosen as a general measure of value, even if we could get over the difficulty of not having one which always requires same quantity of labour to produce it. The two extremes appear to be these: one, where the commodity is produced without delay, and by labour only, without the intervention of capital; the other where it is result of a great quantity of fixed capital, contains very little labour, and is not produced without considerable delay. The medium between these two is perhaps the best adapted to the general

17. Works and Correspondence of Ricardo, Vol.VIII p.344.
mass of commodities; those commodities on one side of this medium, would rise in comparative value with it, with a rise in the price of labour, and a fall in the rate of profits; and those on the other side might fall from the same cause."18

Consequently in ed. III of his Principles the standard adopted by Ricardo was money "produced with such proportions of the two kinds of capital as approach nearest to the average quantity employed in the production of most commodities."19

It may, therefore, be pointed out that despite Ricardo's assertion to the effect that in the third edition of his Principles the chapter on value would not be materially altered,20 when the new edition actually appeared, it contained a very material alteration as regards the measure of value. Thus the passage in the first two editions of Principles stating that a commodity always produced by the same quantity of labour would serve to measure the value of other things was entirely withdrawn,

18. Ibid., p. 193.

19. Works and Correspondence of Ricardo, Vol. I p. 45. It is in fact this change in the choice of the standard of measurement that necessitated the replacement, in the third edition of Ricardo's Principles of the statement that exchangeable value 'depends solely' upon the quantity of labour realised in a commodity with 'depends almost exclusively' (Cf. Works and Correspondence of Ricardo, Vol. I p. 12 n1); because those commodities which lie on one side of this medium would rise in comparative value with a rise in the price of labour and a fall in the rate of profits, and those on the other side would fall in relative value because of the same cause.

and replaced by a new section\(^{21}\) stating that no one commodity, however constant its cost of production, could serve as a general measure of value.\(^{22}\) Ricardo tells us in effect that if there were never any change in the cost of producing silver it could nevertheless be used only to measure alterations in the value of such commodities as happened to be produced under exactly the same conditions as itself. Ricardo argues that since there are various possibilities of the proportions in which labour and capital co-operate in the production of commodities, the difference in these proportions or circumstances "disqualify any commodity that can be thought of being a perfectly accurate measure of value."\(^{23}\)

However, Ricardo believes that gold can be regarded as the best practical standard for use in comparing the values of all types of commodities. He says:

"May not gold be considered as a commodity produced with such proportions of the two kinds of capital as approach nearest to the average quantity employed in the production of most commodities. May not these proportions be so

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23. Ibid.; p.44.
nearly equally distant from the two extremes, the one where little fixed capital is used, the other where little labour is employed, as to form a just mean between them?"24

Ricardo, however, did not feel quite satisfied even with his new measure of value. Thus about one month before his death he wrote to McCulloch:

"I cannot get over the difficulty of the wine which is kept in a cellar for 3 or 4 years, or that of the oak tree, which perhaps originally had not 2/ expended on it in the way of labour, and yet comes to be worth £ 100. There is no difficulty in estimating all these in a measure of value such as ours, but the difficulty is in showing why we fix on that measure, and in proving it to be, what a measure of value must be, itself invariable."25

Malthus in section V of the second chapter of his Principles of Political Economy deals with Ricardo's commodity of unvarying cost as a measure of value. This section opens with the following words:

24. Ibid., pp. 45-46.

"Upon the principle, that the labour which a commodity has cost in its production, is at once a measure of real and relative value, it has been thought, that if there were any article to be found which would at all times cost the same quantity of labour in its production, it might be used as an accurate and standard measure of value."²⁶

While examining this proposition Malthus contends that even if we had money (any precious metal) always produced by the same quantity of labour, the ratio in which it exchanged for other commodities would not indicate the ratio between the quantity of labour embodied in the standard metal and the quantity of labour embodied in the commodity for which it exchanged.²⁷ Malthus says:

".....let us suppose; first, that the precious metals require for their production at the mines which yield no rent, a certain quantity of fixed and circulating capital employed for a certain time....none of the commodities which would exchange for a given quantity of silver, would contain the same

²⁶ Malthus, op.cit., p.108.
²⁷ Ibid., p.109.
quantity of labour as that silver, except those which had been produced, not only by the same quantity of labour, but by the same quantities of the two kinds of capital employed for the same time and in the same proportions; and in the case of a rise in the price of labour, all commodities which still contained the same quantity of labour would alter in price except those very few which were circumstanced exactly in the same manner with regard to the capitals by which they were produced as the precious metals.

Let us suppose, secondly, that the production of the precious metals required no fixed capital, but merely advances in the payment of manual labour for a year...upon a rise in the price of labour, almost all commodities would rise or fall in price.

Let us suppose, thirdly, that labour alone, without any advances above the food of a day, were sufficient to obtain the precious metals,.....In this case it is obvious that every commodity which had required in its production any sort or quantity of capital beyond the advance of necessaries for a day
would differ in price from any portion of
gold or silver which had cost the same
quantity of labour....

On either of the above suppositions,....
we should be as little able as we are at
present to infer from these relative
prices the relative proportions of labour
employed upon each commodity." 28

Malthus, therefore, rejects Ricardo's labour-embodied
measure and instead adopts labour-commanded measure; a measure
according to which the value of a commodity is estimated by
the quantity of common day-labour which it can command. Malthus,
of course, also considers 'a mean between corn and labour' as a
measure of value but believes that this measure might be
preferred to labour-commanded measure 'in some cases' 29 only.
The reasons advanced 30 by Malthus for fixing upon 'the labour
which a commodity will command' as a measure of value are first,
that labour is most extensively the subject of exchange for
"of all the objects by far the greatest mass of value is given
in exchange for labour either productive or unproductive,"
secondly, that the value of commodities in exchange for labour"
can alone express the degree in which they are suited to the
wants and tastes of society, and the degree of abundance in
which they are supplied, compared with the desires and the

28. Ibid., pp.110-111.
29. Ibid., pp.132-133.
30. Ibid., pp.119-120.
numbers of those who are to consume them," and thirdly, "the accumulation of capital and its efficiency in the increase of wealth and population, depends almost entirely upon its power of setting labour to work; or, in other words, upon its power of commanding labour." According to Malthus, these reasons added to the important quality of day-labour that it "taking the average of summer and winter, is the most steady of all exchangeable articles" account for the great pre-eminence of labour-commanded measure over labour-embodied measure. In his book 'The Measure of Value Stated and Illustrated,' published in 1823, Malthus again advocated labour-commanded standard of value.

Ricardo, however, continued to express his disapproval of Malthus's measure of value. Thus commenting on Malthus's new book Ricardo wrote to Malthus:

"I cannot agree with you in considering labour, in the sense in which you use it, as a good measure of value, ... I have the same objection to your measure which I have always professed— you choose a variable measure for an invariable stand-

31. Ibid., p.122.


* The Measure of Value Stated and Illustrated with an Application of it to the Alterations in the Value of the English Currency since 1790.
ard. Who can say that a plague which
should take off half our people would
not alter the value of labour?"33

Ricardo, in the newly-discovered paper on 'Absolute
Value and Exchangeable Value,' written at the end of his life,
justifies his choice of the measure of value in the following
words:

"To me it appears most clear that we
should choose a measure produced by
labour employed for a certain period,
and which always supposes an advance
of capital, because Ist it is a perfect
measure for all commodities produced
under the same circumstances of time as
the measure itself—secondly By for the
greatest number of commodities which
are the objects of exchange are produ-
ced by the union of capital and labour,
that is to say of labour employed for
a certain time 3dly. That a commodity
produced by labour employed for a year
is a mean between the extremes of comm-
odities produced on one side by labour
and advances for much more than a year,

and on the other by labour employed for a day only without any advances, and the mean will in most cases give a much less deviation from truth than if either of the extremes were used as a measure. 34

It may be pointed out that by his statement* given above, describing the third reason for justification of his measure Ricardo has in effect equated the standard adopted in ed.III of his Principles to that of ed.I. Thus having started with labour 'employed for a year' as the extreme of 'unassisted labour,' Ricardo realized, first, that this was not really an 'extreme' since many commodities were produced by labour employed for less than one year, and secondly, that if he were to take 'labour employed for a day only without any advances,' this would be the equivalent of a 'labour commanded' standard and wages could never rise in terms of this standard. He, therefore, in ed.III takes 'a just mean' between the extremes, 'produced with such proportions of the two kinds of capital as approach nearest to the average.' 35 Having done so, Ricardo comes finally to the view that this mean can be reduced to 'a commodity produced by labour employed for a year,' 36

34. Works and Correspondence of Ricardo, Vol.IV p.405.
* 'That a commodity,...if either of the extremes were used as a measure.'


the very standard which he had used in ed.1 of his Principles, but which he had at that time considered as being an 'extreme.'

Before closing the chapter, it may be pointed out that after having discussed the basic ideas and the controversy between Ricardo and Malthus on the question of a proper measure of value one is inclined to feel that it was really a difficult problem for both Ricardo and Malthus to solve at the time when the development of economic science had not sufficiently taken place. In fact the question of the measure of value is related to the index number problem. It is really difficult to fix on any particular commodity in terms of which the values of other commodities could be measured; instead we have got to take up a composite commodity representing a bundle of goods with which the values of each individual commodity could be compared. Even J.M. Keynes was not able to fix on any particular commodity and he obviously relied on the wage goods as the measure of value, indicating thereby that the values of various commodities were to be compared with the working class cost of living index numbers. Modern economists influenced by the ideas of Prof. Simon Kuznets have begun comparing the values of all commodities in terms of constant value of money. It was obviously difficult for both Ricardo and Malthus to fix on constant value of money as their standard of measurement for that requires, among other things, very refined statistical methods of computation and calculation.