

Analysis of classical economist theories



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“ Do the classical economists constitute a coherent school of thought in the history of economics, or are they rather a loose grouping of writers whose differences are more salient than what they have in common?”

Abstract

This paper will discuss the analysis of capital accumulation, income distribution and technological progress expounded by major classical economists, David Ricardo, Adam Smith and Karl Marx. Detailed arguments on Smith’s views on division of labor, Ricardo’s investigation of using the labor theory to replace machines and Marx’s theories of capitalism and his version of Ricardo’s analysis will be explained. It will finally be concluded that classical economists constitute a coherent school of thought, whose philosophies are more similar than different.

1. Introduction

The classical school of thought has always placed a great amount of emphasis on the analysis of economic growth. The question asks the reader whether the theories and philosophies of the classical writers were logical and consistent with regard to the economic behavior, or if they were simply writers whose ideas were rather dissimilar to that of their compatriots.

The paper would critically discuss the ideologies and theories implemented by classical economists, with particular focus on the effect of the various forms of technological change that have major insinuations on the income distribution amongst rent, wages and profits.

The components of this paper are as follows: Section 2 highlights Adam Smith's approach to this issue of technological change where the argument pivots around his views on division of labor and its components. Section 3 reviews David Ricardo's definition of the labor theory of value and his response to technical change which would feature chapter XXXI, "On Machinery", which is newly added as seen in the third edition of the *Principles*. Section 4 studies the views of Karl Marx, where his hypothesis on the "organic composition of capital" is examined closely in relation to the theory proposed by Ricardo. The sections are not just limited to these specific writers, other classical economists are discussed in the capacity of the aforesaid philosophies as and where applicable. Following this is a final section that concludes.

2. Adam Smith – Division of labor

At the very beginning of *The Wealth of Nations*, Smith, in his "Introduction and Plan of Work" maintains that a nation's social product (taking into account the social product minus the workers' consumption) is measured by "the skill, dexterity, and judgment with which the labor is generally applied". A primitive feature of his study, Smith considers an investigation of the reasons due to which the productivity of workers would increase (Smith, *WN* I. 3-4).

Smith's perception of the concept of division of labor was extremely wide; it covered many characteristics and varying forms of technological change. Principally although, Smith accredited the division of labor to the influence of three essential elements that led to an increase in productivity. Firstly, specialization helped workers hone their skills and become defter as a result.

Secondly, a lot of time is saved as there is no shift from one activity to another and there is better utilization of resources. Lastly, arduous and complex labor processes would be replaced by powerful machines through innovation, i. e., replacing labor with machines.

A careful study of Smith's analysis of division of labor further clarifies Smith's ideas as can be seen in the first three chapters of the first book of *The Wealth of Nations*. In chapter one for instance, Smith distinctly conveys how effective a device, division of labor is in terms of increasing productivity. He then goes on to say in chapter two, that it is a natural human tendency "to truck, barter and exchange one thing for another", which appear to be entrenched in "faculties of reason and speech", which further provides justification to division of labor (Smith, *WN* I. ii. 1-2). The argument is then completed in chapter three where Smith emphasizes the fact that the market limits the division of labor: a larger division of labor is generated by a larger market and thus, larger productivity is generated between firms as a result. While the markets are expanded by accumulation of capital, Smith's study emphasizes on the determinants of the latter.

Consequently, there has been a lot of debate on whether Smith's views on division of labor, income distribution and his analysis of accumulation were 'consistent'. I believe that technological progress was not viewed by Smith as a boon, which was indisputably valuable to all classes of society. However, sections three and four would discuss Ricardo and Marx, and their views and criticisms on elements of Smith's theories.

3. David Ricardo – Labor theory of value and technological changes

Before we discuss Ricardo's views on the implications of technological change and its effects on income distribution and capital accumulation, his "fundamental law of income distribution" must first be defined; an inverse correlation between wages and the general rate of profit. He said that the rate of profits would be smaller if a large proportion of what the labor produces is given to him and vice-versa (Ricardo, Works VIII: 194). He was certain of the fact that technological change was an integral component in terms of the developing the modern society and that different effects would be experienced as a result of different forms of change. He was the first economist to have officially defined labor theory of value and thus, his work was considered to be the turning point in the history of the classical school of thought.

This is because he reflected upon numerous scenarios in order to arrive at a broad range of consequences that could be an aftermath of technological change. He argued on one particular case regarding a production unit that was completely automated and rightly pointed out that in a case where all the work is done by machinery, there will be no demand for labor.

Furthermore, he discussed that nobody despite capitalists would be able to consume commodities or even buy or rent a machine. (Ricardo, Works VIII: 399-400). Surprisingly, the most important technological change commonly associated with Ricardo is however, the problem of "machinery". He further went on to assert that the introduction of new machines into the system of production can finally lead a redundancy of workers. This was later defined as "technological unemployment"

Following this, Ricardo withdraws his previous views on machinery in his third edition of the *Principles*, 1821, in which he states that “ the application of machinery to any branch of production, as should have the effect of saving labor, was a general good, accompanied only with that portion of inconvenience which in most cases attends the removal of capital and labor from one employment to another” (Ricardo, *Works* I: 386). Ricardo was however convinced that Say’s law, could not in every case, avert the redundancy of workers (Ricardo, *Works* I: 290). He the rightly corrected himself by stating that he was convinced that using machinery in place of labor was “ injurious” to the interests of the labors.(Ricardo, *Works* I: 388).

On the contrary, I strongly support his idea that it is possible without reducing profits, that advanced and improved machines reduced the amount of labor required for production purposes. Labor productivity would increase however as the machines decrease “ the sacrifice of labor” (Ricardo, *Works* IV: 397). However, on a final note on Ricardo, it must be mentioned that Ricardo, as a classical economist had a very deep understanding regarding of labor theory of value. Marx’s version of this idea would be discussed next.

4. Karl Marx – Capitalism and labor theory of value

Marx adopted Ricardo’s labor theory of value and inculcated some changes of his own. He extended Ricardo’s theory by defining value to be the product of “ all socially expended labor” which was needed, thus suggesting that apart from direct labor, labor used by to create the product was likewise factored into value. Marx reserved special praise for Ricardo’s “ scientific

impartiality and love of truth” (Marx 1954: 412) and the “ honesty which so essentially distinguishes him from vulgar economists” (Marx 1969: 555).

On closer inspection, it can be observed in Marx’s volume III of *Capital* , part three specifically, where he appraises Ricardo’s views on effects of technological change and the labor theory. In such a way, this problem of technological change was Marx’s attention of focus of attention in his scrutiny of capitalism. However, Marx insisted that this problem must be examined regularly within the framework of a “ circular flow of production” as he had established in his second volume of *Capital* .

Furthermore, Marx view was that every stage and line of production required “ constant capital”. The important underlying implication is that maximum level of profit in such a system would be finite. These levels of profit would be determined by what Marx coined as “ the organic composition of capital” and would have an upper limit. His study led him to the conclusion that if this “ organic composition of capital” falls (rises) during the time period where there is capital accumulation and changes in technology whilst assuming that wages remain constant, then, it must follow that that the actual rate of profit will fall. As a reader, I am almost compelled to think that Ricardo’s views and ideas have had a strong impact on Marx, as is exhibited by his statements.

Likewise, Marx inspected Ricardo’s theories with utmost care, correcting the latter’s theories in some cases, but most evidently absorbing what he reflected to be thorough into his framework. For instance, Marx asserted that when the organic composition of capital rises, it is inevitably the case that

the general rate of profits may fall given the fact that the surplus value would be constant, which is contrary to Ricardo's principle. Another such example could be Marx's "relative over-population" theory (Marx 1959: 249-251) or a "reserve army of the unemployed". Marx proclaims that the redundant workers cannot be expected to be hired back by factories that utilize machines because of the labor saving trait of the machines. A downward pressure is thus exerted by this reserve army.

To Marx and capitalism, what mattered is not "saving in living labor in general", however "a saving in the paid portion of living labor" (Marx 1959: 262). The evidence is unmistakable; I believe that it serves to show how intricately close the writings of Ricardo and Marx were: also the fact that Marx was coherent in exhibiting his theories, and comprehensive in portraying his thoughts which has served its purpose in the history of economic thought.

5. Conclusion

This essay shows how major classical economists consist of a coherent school of thought through their philosophies and theories that still continue to serve as a basis on which more modern models and theories have been established. This paper shows how major classical economists tackled the issue of technological change that contributed to the growth of a capitalist economy.

The three economists, namely Smith, Ricardo and Marx place a lot of attention on the impact of accumulation of capital and technological change on profits. It is interesting to note that although they arrive at a conclusion

that the general rate of profit would fall, their arguments which back up that claim differs in important characteristics. The essay is however limited to evaluating a hypothetical situation of one-good economies that are not well suited to examine the intricacies at hand.

Nevertheless, it is distinctive that all these writers have, in their own capacities, contributed to explaining the dynamisms of a capitalist economy and the need to increase labor productivity. The argument can be concluded by supporting the claim that these writers constituted of a coherent school of thought whose theories and ideas were more similar to each other and it isn't the case that their differences were more noticeable than what they had in common.

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