

Ricardo's theory of value research paper sample

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Introduction

David Ricardo (1772-1823) - is one of the greatest economic theorists of English classical political economy, the last and the most famous representative of the classical school of bourgeois political economy in England.

The theoretical views of Ricardo are stated in the most complete form in his magnum opus - " On the principles of Political Economy and Taxation", the first edition of which appeared in 1817. Ricardo's " Principles" - is a political and economic writing. It has put forward his author to the range of important representatives of classical economic school.

Ricardo`s aim is to discover economic laws of the political economy. The basis of the entire theoretical system of Ricardo is a definition of value with labour aspect. With this in view, Ricardo explores the rest of the categories, every time raising the question, of whether the category, which he considers, is different from the definition of the cost of labour value.

An important achievement of Ricardo was the development of methods of scientific research in economics. His contemporaries stated that " new science of political economy" with the help of Ricardo appeared, and they were right. Indeed, political economy to a large extent for the first time received the features of science as a system of knowledge about the economic basis of society in his works.

The formation and explanation of the labour theory of value in Ricardo's works represent a major scientific achievement of bourgeois political economy, at least in two aspects. First of all, this theory means a study of the most common economic relationships and principles that define the

capitalist production method. Secondly, it develops the most important methodological principle. Ricardo's theory of value has used those possibilities of the scientific approach, which offered the bourgeois way of thinking.

Analysis of the Labour theory of value based on Ricardo`s treatise " On the principles of Political Economy and Taxation"

Let`s look over the Ricardo`s theory of labour value. Already from the name of the theory it is clear to us that the author is referring to determining the cost of labour. The book opens Ricardo basic provision of his theory: " The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production" (9).

Ricardo in his work considers in particular an exchangeable value. Speaking about commodities (goods), of their exchangeable value and of the laws governing their relative prices, Ricardo always has in mind the following: " such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint" (9). And the commodity, as we know, is an object, a thing that meets with its qualities human needs of various kinds. Labour is " the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative value of commodities" (Ricardo 15) – this thesis is fundamental for Ricardo. But the work itself is a commodity, and as a commodity it is bought and sold. Labour has its basic and market price.

We can say that the exchangeable value of all goods is characterized by the greatest amount of labour that was spent for the production of goods by those workers who continue to work under the most unfavorable conditions. Such conditions mean that the specific amount of goods shall be performed as much as needed.

As I concluded, the labour that determines the value of commodities can be different. Sometimes labour is applied directly to the product for its production, and sometimes the labour is used for the purpose of creating of instruments, tools and buildings, which have positive effect on such labour. But savings applied to labour wages always lower the relative value of the goods, regardless, whether they affect the labour necessary for the product, or for the formation of capital with the help of which the goods are manufactured.

These two different kinds of labour Ricardo correlate with two different types of capital. There is a circulating capital, which is non-durable, quickly circulates and is spent on the wages of workers, who spend it on the food, clothing, and products necessary for life. And there is a basic capital invested in tools, machinery and buildings. The relationship between these two types of capital may be different. The difference in the degree of durability of basic capital and in the relationship between the two forms of capital leads to another cause of changes in the relative value of the commodities in addition to a larger or smaller amount of labour that is needed to produce them. This new reason is the rise or fall in the value of labour.

In addition to various types of labour, Ricardo notes that labour may be of varying quality and be evaluated in different ways, but the difference in the assessment was established long ago, and since we are interested in the <https://assignbuster.com/ricardos-theory-of-value-research-paper-sample/>

relative cost of commodities, " We may fairly conclude, that whatever inequality there might originally have been in them, it continues nearly the same from one generation to another, and therefore, can have little effect, for short periods, on the relative value of commodities" (16). However, it concerns the work of different quality. If the cost of labour of one quality is changing, it affects the profit and cost of commodities.

Ricardo introduces an ideal state of things when value of commodities is independent from value of labour, and it is the following. If people did not use machinery in the manufacture but labour alone, and if the delivery of their commodities to the market needed the same amount of time, the exchangeable value of their products would be exactly proportional to the amount of labour spent. If they used capital of the same cost and durability, the value of the goods would be identical, and it would vary only depending on the greater or lesser amount of labor expended in their production. Only under such ideal circumstances, increase or decrease in wages would not affect the value of the product and will be deducted from the profits of the entrepreneur.

In the early stages of social development, before the use machines or durable capital, goods produced with the help of equal capitals had approximately the same value. And change in price of goods is caused only by the fact that more or less labor was spent for their production. After the introduction of expensive machines and durable capital goods, which were produced with the use of the same capital, have unequal value. Although the relative value of such goods always rises or falls depending on the increase or decrease of the amount of labor needed to produce them, it is also affected by smaller changes owing to rising or falling of wages and profits.

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An increase of wages may be caused by another fact – lowering of the cost of money (money is regarded by Ricardo as a commodity). Wage increases due to the lower cost of money are invariably accompanied with the rising price of commodities, but in such cases the change does not occur in the relative cost of labor or other commodities, but the value of money only changed.

Wage increases due to changes in the value of money have a general effect on all prices and therefore do not have any real effect on any profit. On the contrary, higher wages because of the fact that laborers receive a generous reward or as a result of difficulties in receiving necessities on which wage is spent, does not cause, except in certain cases, higher prices, but has a big impact on fall in profits.

Still, what does additionally affect the cost of labor under the ideal conditions? Here we return to the differences between the two types of capital, basic and circulating. Two types of capitals of equal sizes may be used, but these capitals can be classified in various ways into reversible and main parts. For example, in one case very small capital is used as working one (targeted for the allowance of labor): it is invested mainly in machinery, tools, buildings, etc., (for the capital of the primary and enduring character). In another case the same amount of capital is used, but mainly for the purpose of allowance of labor and very little of it is directed in the development of devices, machines and buildings. Consequently, raising of wages will not stop reflecting unequal manner on the goods produced in such different conditions.

The price, as we see, does not change as a result of rise or fall of wages, it only modifies as a result of unequal durability of capital and of the uneven rate at which it is returned to the owner. Although the relative value of goods

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produced under the same conditions, changes only by increasing or decreasing the amount of labor required to produce any commodity.

However, in comparison with other goods produced by another relative share of basic capital, their price also vary from other cause – from the increase in the cost of labor, nevertheless for the production of these commodities the same amount of capital was used, but not less share of it.

The degree of change of the relative value of the commodities due to increase or decrease in the value of work will depend on the factor of what part of the total invested capital is a core capital. For instance, a relative value of all commodities, for which manufacture people use very expensive machinery or buildings, or of those commodities that require more time to enter the market, will go down affected by higher wages. While a relative value of those commodities, which are produced mainly by use of simple labor or those rapidly entering the market, will rise. The greater is the proportion of fixed capital, the greater is the decline in value.

Ricardo showed us one more reason of the change of commodities value associated with capital assets and not dependant on the changes in wages.

This reason – is a service life of the capital. If a main capital fades away quickly, then annually it is required much more labor to maintain the original level of efficiency, but the labor expended in that way may be considered as actually spent on manufactured goods, to which value shall be added.

Quickly fading-out basic capital is close to the circulating one in its characteristics. Therefore, any increase in salary or any decrease in profits will reduce the relative cost of commodities that are produced with the help of more durable capital, and will accordingly increase the cost of those produced with the use of capital that is “wearing out” much more quickly.

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Principal rules of Ricardo`s theory of value

After analyzing the above mentioned theory I`ve come to conclusion that the main provisions of Ricardo`s theory of value are the following:

- The exchangeable value depends not only on the quantity and quality of work, but on the rarity of the commodity;
- The level of prices of goods in addition to expenses on human labor is affected alongside with labor of mechanisms, that is, " the labor bestowed on the complements, tools, and buildings, with which much labour is assisted" (Ricardo 16);
- The relative value of the goods does not depend on changes in the level of wages of the labourers, the only change is the relationship between wages and profits in the value of the product;
- Increase in the cost of labour (wages) is not possible without a corresponding decrease of profits;
- Reducing of the cost of money as a product is responsible for the growth of wages, which in its turn will lead to higher prices for goods;
- Money as a universal means of exchange among all civilized nations is distributed between states worldwide in proportions that vary with every improvement in the trade and machinery, with each increase in difficulty of obtaining food and other necessities of life for a growing population;
- The level of exchangeable value of the goods is inversely proportional to the use of basic capital in their manufacturing. It means that with a growth of basic capital an exchangeable value will decrease;

Conclusion

An importance of Ricardo's theory of value is undeniable. It`s not only in a role of this theory as a follower and the predecessor of a variety of theories, because a labour theory of value of Ricardo was widely used by also representatives of bourgeois political economy, " apologists for capitalism." Ricardo's theory is valuable on its own as an example of an advanced theoretical thought of era of the industrial revolution.

With the foregoing in view, Ricardo may be considered as one of the forerunners of the concepts of theories of Keynesian economics and of modern macroeconomics. I absolutely share such a wide-spread notion that any modern researcher in the field of basic economic theory may find in Ricardo`s economic concepts and believes origins of his own ideas.

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