

Why Did Smith Suggest a Labor Theory of Value?

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Abstract: Many commentators claim Adam Smith failed to realize that no objective standard of value exists. Instead, he adhered to the labor theory of value. Like others, we argue that in the *The Wealth of Nations* Smith discussed the “early and rude state” in which the labor theory of value made some sense since labor and human circumstances were relatively simple and knowable. However, because the labor theory of value is only sensible in that special case, his description of the theory suggests its own insufficiency. With the emergence of the division of labor, labor heterogeneity and the waning knowability of circumstances render the earlier analysis moot, but that is only implicit in the *Wealth of Nations*. So why does Smith exposit an analytically weak position? We suggest that Smith thought that his rhetorical use of the labor theory of value would advance his “liberal plan of equality, liberty, and justice.” The labor theory of value served as a rhetorical device to underpin his claims that the movement toward an economic system based on an extensive division of labor was a movement toward a better society without any systemic injustice in labor remuneration.

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1 Introduction

If Adam Smith was so smart, why didn't he reject the labor theory of value and recognize a theory of subjective value? Or did he? Some argue that Smith believed the labor theory of value (Peach 2009, Rothbard 1995), while others argue he only apparently accepted it (Schumpeter 2006, Blaug 1997). The conflicting interpretations raise several questions. Maybe Smith lacked the brainpower to move the theory of value forward and left the muddle with the hope that someone would resolve any problems. Or maybe Smith concluded that value theory had reached its full development and nothing more need be said.

We propose a different reading: Smith intentionally left his discussion of the source of value unresolved. We conjecture that Smith knew that the labor theory of value was essentially no explanation at all, and that he purposefully consigned it to the "early and rude state" in which labor was the chief input and the division of labor was limited, so one could think of labor as homogenous. Smith's writings strongly suggest the insufficiency of any labor theory of value and even point to Smith's understanding of the role of scarcity and subjective desire in determining prices. Only under very simple conditions did an appeal to labor as the source of value provide insights into the nature of economic problems. As the division of labor expanded and producers used heterogeneous inputs, any labor standard fails to offer a plausible basis for value theory.

We contend that Smith knew that utility and scarcity played fundamental roles in determining price. His own lectures on jurisprudence provide ample evidence that Smith was familiar with the role of utility and scarcity in determining value, ideas he likely encountered in his moral philosophy classes under Hutcheson. Smith certainly recognized the heterogeneity of labor; he divided labor into productive and unproductive categories (WN, Bk 3). His lectures on

jurisprudence demonstrate his familiarity with the role of subjective desire in determining value (Robertson and Taylor 1957). Furthermore, he understood that the division of labor implied the near omnipresence of informational asymmetries (Scitovsky 1987). Again, if he recognized the problems of assuming homogenous labor and a single input model, why did he not make explicit these problems in his economic magnum opus?

Our interpretation utilizes a concept that we shall call the scene of labor, by which we mean a sense of the circumstances under which a particular person performs particular labor, and the history and background of that person. The key is that knowledge of the scene of labor wanes as society grows more complex. While the scene of labor evokes moral sentiments about the level of wages paid to the worker, the reliance on any such moral sentiments must recede as common knowledge the scene of labor recedes, as it does as society complexifies.

We conjecture that Smith tacitly knew the labor theory of value was incoherent, but by making labor focal in his discussions of value, Smith was able to reassure his readers that the “liberal plan of equality, liberty, and justice” would reward the laborer’s chief asset: their work and human capital. Smith places great value on the role of labor in establishing our moral claims to property, principally because labor – associated with toil and pain – was focal for the impartial spectator. The labor theory of value served as a “noble lie” to underpin his claims that the movement toward an economic system based on an extensive division of labor was a movement toward a better society with justice in labor remuneration. The labor theory of value, as Smith used it, provided the basis for his argument that labor would receive not unjust compensation in a world based on market transactions. Despite its analytical incoherence, the labor theory of value supported his defense of the liberal plan. By offering a weak defense of the labor theory of value,

Smith makes the case for the dignity of work, but simultaneously acknowledges the need to consign the labor theory to a merely symbolic role in economic discourse.

2. The Labor Theory Muddle in Smith

Historians of economic thought have long noted that Smith's discussion of value in WN is one of the more difficult sections in the work. Mark Blaug (1997, 37) says that Smith's treatment of value "has attracted a bewildering variety of interpretations," and Robbins (1998, 136) noted the "controversies to which his treatment gave rise." Fleischacker (2004, 125) observed that "there would seem to be great tension between [Smith's] analysis of income into three distinct categories . . . and his claim that labor ultimately provides the standard by which to measure all three categories." For his lack of clarity on the subject, Schumpeter (2006, 308) lays at Smith's feet the blame "for much that is unsatisfactory in the economic theory of the subsequent hundred years, and for many controversies that would have been unnecessary had he summed up in a different manner."

Certainly, any attempt to understand Smith's discourse on value must account for the opening paragraph of Book 1, Chapter 6 of WN:

In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. It is natural that what is usually the produce of two days or two hours labour, should be worth double of what is usually the produce of one day's or one hour's labour. (WN 65.1)

Also, we now provide in full paragraph 4:

In this state of things, the whole produce of labour belongs to the labourer; and the quantity of labour commonly employed in acquiring or producing any commodity, is the

only circumstance which can regulate the quantity of labour which it ought commonly to purchase, command, or exchange for. (WN 65.4)

Thus, in paragraphs 1 and 4, Smith makes labor focal in a discussion of the origins of value. Between these two paragraphs, however, are paragraphs 2 and 3, and in those the scene of labor, even in the rude state, is already complicated and complexified. Here are the two paragraphs in full:

If the one species of labour should be **more severe** than the other, **some allowance will naturally be made for this superior hardship**; and the produce of one hour's labour in the one way may frequently exchange for that of two hours labour in the other.

Or if the one species of labour requires an **uncommon degree of dexterity and ingenuity**, the **esteem** which men have for such talents, will naturally give a value to their produce, superior to what would be due to the time employed about it. Such talents can seldom be acquired but **in consequence of long application**, and the superior value of their produce may frequently be no more than a reasonable compensation for the time and labour which **must be spent in acquiring them**. In the advanced state of society, allowances of this kind, for superior hardship and superior skill, are commonly made in the wages of labour; and **something of the same kind must probably have taken place in its earliest and rudest period**. (WN 65.2-3, boldface added)

We see here that Smith shows that the scene of labor is complicated even in the rude state. Some labor is more severe, and the severity presumably varies by the man. Experience builds up dexterity and ingenuity, but the laborer's personal history is not readily observable. Even in "its earliest and rudest period" society must have faced knowledge problems when assessing "reasonable compensation" for labor. While paragraphs 1 and 4 sound so definite about "labour" being some some kind of determinant of value or price, paragraphs 2 and 3 immediately show that Smith did not really see any definitive homogeneous labor or a simple scene of labor.

Part of the difficulty in trying to understand Smith's labor theory of value is that it is not clear what the theory is trying to explain, or what it would mean that labor is the "source of all value." It seems the thing to be explained is a good's "natural price" which is itself hardly ever seen, and whose definition is unclear in any telling. Thus, Smith does not begin with something concrete or definite; instead, he begins with a nebulous concept and appeals to an equally nebulous explanation. The multiplicity of meanings contained in concepts like "natural price," "value," and "labor" helps to explain the wide diversity of interpretations of what Smith could have meant.

A significant part of the difficulty surrounding the interpretation of the labor theory of value is that Smith's writings on the subject can be taken to mean many different things. Even the idea of the labor theory of value itself is contested ground. Smith's interpreters have argued that he either held or rejected a variety of ideas which we might fairly label a "labor theory of value."

The various ideas, which lay claim to the name "labor theory of value", are so numerous that we cannot exhaust all the possible variations, but we believe the three most plausible interpretations of Smith's words each contain sufficient inconsistencies to suggest that Smith never develops anything that might deserve the designation of a labor theory of value. Taken together with evidence that Smith had access to, and even affirmed elements of, alternative approaches to the question of value, we argue Smith's purpose in highlighting labor in these discussions was rhetorical rather than analytical.

The first way we might interpret Smith's words is that Smith is merely suggesting a way to compare the earnings of a worker typical at one point in time with the earnings of a worker typical at a different point in time. In this sense, Smith suggests a procedure analogous to the use

of CPI to compare purchasing power of dollars at two points in time. Smith's use of labor here builds on ideas in his lectures on jurisprudence wherein an hour of labor represents a constant amount of "toil and pain." Such a method of comparison hardly represents any sort of theory whereby Smith addresses an explanandum and offers an explanation, much less an explanation rooted in labor. Labor here does no work as an explanation of value or anything else.

The second plausible interpretation of Smith's words is that at some point, labor was much more homogenous, the scene of labor was simple enough to be a matter of shared knowledge, and therefore labor was analytically useful, in determining value, in a single special case. However, as a theory of price, Smith abandons this simple idea almost as soon as he states it. He complicates the situation by explaining that even in the "early and rude state" the severity of work, dexterity required, and ingenuity involved all alter the value of labor from one individual to another. Instead a theory of relative prices, then, perhaps the original homogeneity of labor is somehow the basis for a moral norm surrounding toil and pain, and the rules of justice in exchange. Smith seems satisfied to leave this notion entirely undeveloped, and instead points to "the higgling and bargaining of the market" to sort out relative prices, which he notes is "sufficient for carrying on the business of common life" (WN, Bk 1, Ch V).

The third plausible interpretation is that Smith is developing a cost of production model whereby all value ultimately arises out of labor. But it makes little sense to attempt to reduce all costs of production to some performance of labor—such as the labor of improving one's "judgment" or of thinking up a new idea or being the right place at the right time—and any attempt to do so will only introduce fanciful and more wildly heterogeneity of "labor." The cost of production interpretation relates to the previous interpretation, in the sense that the analyst who would figure all of the costs is again presupposing a knowledge about the scenes and

histories of labor that is simply impossible, and, moreover, impossible to establish as common knowledge among her auditors.

Smith explains the exchange value of a product through an appeal to the labor expended in producing it. His explanation seems consistent with his argument that labor “is the real measure of the exchangeable value of all commodities” (WN, 33). Although Smith complicates matters as soon as he admits that labor itself is not a homogenous input, he repeatedly makes labor focal in accounting for value. Whatever else Smith might be arguing, it is certainly understandable that Smith’s successors would focus on Smith’s treatment of the relationship between labor and value. Blaug (1997, 51) notes that Ricardo and then Marx defended the view that Smith “got horribly confused between the ‘labour commanded’ by a product and the ‘labour embodied’ in its production.” Similarly, Schumpeter (2006, 310) acknowledges that “it is almost excusable if many later economists misunderstood what [Smith] actually did mean and . . . accused him of having confused the quantity of labor that enters a commodity with the quantity of labor it will buy.”

In the twentieth century, however, economists tended to argue that while Smith was unclear when writing about the source of value, he never really intended to propose a labor theory of value beyond the “early and rude state” of nature. Schumpeter (2006, 310) argues that while Smith appeals to labor to explain value in that special case, he “does not in itself constitute a labor-quantity theory, or any labor theory, of value, because, for this special case, all theories of value would arrive at the same result.” Instead, Schumpeter argues that Smith espouses what economists would later call a cost-of-production theory of value. As Smith describes society as it exists outside the early and rude state, wherein labor is not the only input for production, he states that “wages, profit, and rent, are the three original sources . . . of all exchangeable value”

(Schumpeter 2006, 309). Here, Smith either seems to contradict his earlier argument, or instead intends to subsume the original claim within the fuller second statement. Labor is only focal in the early and rude state because it is the only relevant factor of production.

If Schumpeter is correct, Smith simply made a muddle of things by treating labor as focal throughout his discussion. Blaug denies that Smith could have made such an elementary mistake and contends instead that Smith never meant to define or defend any sort of labor theory of value. Instead, Blaug argues that Smith was primarily concerned with marking a contrast between his own view and that of the mercantilists, who claimed that wealth consisted in money itself. As Blaug (1997, 52) puts it, “[the] phrase ‘labour is the foundation and essence of wealth’ was among the shibboleths of the time, a convenient weapon against mercantilist thinking.” Nevertheless, both Blaug and Schumpeter promote an interpretation that has Smith never intending to promote any sort of labor theory of value in the first place.

Alternatively, some scholars have argued that the labor theory of value was a coherent part of Smith’s broader philosophy. Peach (2009, 405) argues that Smith nowhere explicitly states his intention to confine the labor theory to the “early and rude state” and that Smith’s frequent appeals to labor in other sections of WN, Book 1, instead suggest that Smith genuinely intended to point to “expended labor as the underlying determinant of exchangeable value.” Peach acknowledges that Smith presented an “extremely rudimentary” labor theory of value and seems to have entirely missed such a theory’s implications for distribution, but nevertheless maintains that Smith never meant to present anything but a labor theory of value.

Jeffrey Young offers a competing interpretation, suggesting that Smith’s underlying jurisprudential theory justifies a labor theory of value in the early and rude state but also explains why Smith seemingly abandons the labor theory of value without explanation as he espouses

something more like a cost-of-production theory of value. In this interpretation, Smith's theory of value is tied closely to his theory of justice and both rely on the judgment of the impartial spectator. In the early and rude state, the impartial spectator sympathizes with the pain and toil associated with labor. Young argues, "A labor theory of value is, therefore, a logical outgrowth of the spectator's sympathy with time and pain" (Young 1997, 761). If Smith's theory of value is tied thus to the sentiments of the impartial spectator, Smith's theory of value transitions seamlessly away from a labor theory to something more sophisticated. As the impartial spectator naturally sympathizes with expectations and the conditions of property, the value of a thing incorporates more than simply labor. In developed society, the impartial spectator considers additional factors, such as risk and possession. Smith's theory is internally coherent, but in a non-obvious way for economists who ignore Smith's jurisprudence and moral theory. Though the interpretations are otherwise dissimilar, both Young and Peach each assert that Smith did not err in choosing to focus on labor as a fundamental source of value.

3. Did Smith Really See an Alternative?

In contrast to each of the above interpretations, we conjecture that Smith recognized the incoherence of a labor theory of value, employed the language as a sort of "noble lie" to advance his liberal plan for society. In order to support this claim, we surmise that Smith would have known of an alternative explanation for value. Second, we suggest a plausible case to explain why Smith would have had good reason to shroud or otherwise deemphasize that alternative explanation of value.

Smith's *Lectures on Jurisprudence* (LJ) provides the primary source of evidence that Smith clearly understood the role of scarcity and subjective desires in the determination of value.

Before discussing the role of labor in economic production, Smith notes the relationship between scarcity and price. More important than his assertion that “cheapness is in fact the same thing with plenty” is his succeeding discussion of the “taste of beauty” in directing our economic activity (LJ, 333). Preference and taste play the greatest role in explaining why we consider goods valuable and are willing to pay a high price to obtain them. In LJ, Smith follows closely the arguments about utility and scarcity found in his predecessors Pufendorf and Carmichael. Smith certainly knew about the demand side of value. Others have used the disparity between Smith in LJ and WN to suggest the contrast is a sign of Smith’s confusion. Specifically, why should the beaver and the deer be valued only in relation to their labor costs, unless we have already assumed away all else that they could be valued in relation to, such as different subjective valuations? The meager acknowledgment in WN of what Smith clearly understood in his earlier lectures is something of a mystery.

The second reason to think Smith would have understood the shortcomings of the labor theory of value is that he placed great emphasis on the heterogeneity of labor. Many previous interpretations, especially those that attribute to Smith a simplistic understanding of the theory of value, are less plausible if Smith recognized the limits of labor in explaining productivity. We think Smith provides ample evidence that he held a more sophisticated view of the relationship between labor and value. In the Introduction to Book 2, Smith makes explicit the limited role a labor theory of value has in explaining the source of prosperity. He emphasized the importance of the division of labor in raising productivity in a nation. Smith wrote:

In that rude state of society in which there is no division of labour, in which exchanges are seldom made, and in which every man provides everything for himself, it is not necessary that any stock should be accumulated or stored up beforehand in order to carry on the business of the society. Every man endeavours to supply by his own industry his own occasional wants as they occur. When he is hungry, he goes to the forest to hunt; when his coat is worn out, he clothes himself

with the skin of the first large animal he kills: and when his hut begins to go to ruin, he repairs it, as well as he can, with the trees and the turf that are nearest it. (WN, 276; see also 10)

The rude state lacks specialization. Every worker is roughly the same. Workers' skill sets are roughly identical. He notes that in that world "every man provides everything for himself."

People have little incentive to save or store products. Without some surplus, trade opportunities are limited.

Once people recognize the gains from trade that arise from specialization, the problems of valuing labor emerge. No longer do workers have the same skills. Some are better at producing goods and services than others. Smith wrote:

But when the division of labour has once been thoroughly introduced, the produce of a man's own labour can supply but a very small part of his occasional wants. The far greater part of them are supplied by the produce of other men's labour, which he purchases with the produce, or, what is the same thing, with the price of the produce of his own. (WN, 276; see also 10)

Trade opportunities emerge. People produce some for themselves and trade the surplus. This process continues. Specialization begets specialization and a virtuous circle ensues where people attain higher and higher levels of prosperity. But for this process to occur, those with power had to recognize these benefits and realize the gains from trade integrating into larger and larger networks of specialized production. The system of natural liberty and the institutions of trade and the division of labor, rather than the labor itself, deserve the credit for creating value.

Smith's system of natural liberty relied on an institutional environment that promoted competition. This competition promoted the well-being of the laboring classes as it expanded trading opportunities and productive capabilities. Smith wrote:

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way and to bring both his

industry and capital into competition with those of any other man, or order of men. (WN, 687.51)

By expanding the size of the market, opportunities emerge to limit laborers' exposure to risk. Increasing numbers of consumers become available for potential wealth-creating trades. A larger market offered new avenues for further specialization and higher productivity and incomes.

Trading opportunities provided dignity to workers. No longer did they have only one person to whom to sell their labor or goods. As the market size grew, the ability to walk away from some opportunities offered a source of self-respect and "independency" (WN, 378, 399, 402). Workers are no longer beholden to one person for their livelihood. If there are no expected gains from the potential trade available, workers can continue searching for them. Increased trading opportunities provide power to laborers.

Smith's discussion of the payment of labor begins with the recognition that without capital, labor receives what it produces. But with the introduction of physical capital, labor and capital must each receive some of the returns, as capital enhances the productivity of labor. Workers produce much more than they could based solely on their labor. But would laborers receive any of the fruits of their more productive labor? Smith thought so—a rising tide lifts all boats (WN, 10, 22-25), but he did have concerns. Thus, Smith voices his sympathy for the laborer who, when gathering the natural fruits of nature "when land was in common, cost the labourer only the trouble of gathering them . . . [and who now] must then pay for the license to gather them; and must give up to the landlord a portion of what his labour either collects or produces" (WN, 67).

Smith argued that employers might attempt to exploit their workers because of their superior bargaining position.

In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate. (WN, 84)

Thus, a disproportionate amount of the value created would end up in the employer's pocket.

Also, the employers might be able to collude with one another and limit wage increases. They could work together to discourage paying workers more. If this happened, then the gains from increased productivity would accrue to the employer. Ricardo and Marx would later pick up on these admissions and argue that Smith's system could not resolve the injustice that arises from the disproportionate bargaining power between the employers and laborers.

But competition served to discipline the employer. Smith argued that labor would be paid based on supply and effectual demand. The natural price would emerge. Notably, Smith argues that growth, not wealth, is the central cause of rising wages. "It is not, accordingly, in the richest countries, but in the most thriving, or in those which are growing rich the fastest, that the wages of labour are highest" (WN, 87). We recall that progress, for Smith, arises out of the division of labor. So, while the division of labor has the effect of diverting some of the natural proceeds of labor to the employer, it also leads to progress and increasing wages as labor becomes more specialized. The productive capabilities of labor increase as further specialization occurs. A virtuous circle ensues as the formerly poor laborers earn ever-increasing income.

Economists have long recognized that Smith's analysis of the division of labor contradicts his theory of wages. Waterman (2014) refers to the contradiction as "another, quite different, Adam Smith Problem." The division of labor implies increasing returns to scale and ever-increasing wages. Yet Smith's later discussion of wages invokes a natural price or a long-

run stable equilibrium. Thus, Smith's microeconomics is incoherent.¹ As we have argued, however, Smith's interest is only partly analytical. He observes the unsavory behavior of employers, but also evidence of the virtuous circle between the division of labor, progress, and wages. The incoherence allows him to argue for the laboring classes against the mercantilist order. Trade openness expands the division of labor and increases the wage of the laboring classes.

4 – Sanctified Labor

The incoherence of a labor theory of value plagues Smith's discussions in *The Wealth of Nations* and even his *Lectures on Jurisprudence*. Discussions of "natural price of labor" or "grain's real value" lead to confusion. No unit of labor can be meaningfully definitized as *the* Unit of Labor, just as no unit of matter can be meaningfully definitized as the Unit of Matter. Smith's discussions are often vague and confusing. For example, he wrote:

A man then has the natural price of his labour, when it is sufficient to maintain him during the time of labour, to defray the expense of education, and to compensate the risk of not living long enough, and of not succeeding in the business. When a man has this, there is sufficient encouragement to the labourer, and the commodity will be cultivated in proportion to the demand. (LJ, 495; see likewise LJ(A) 355)

Likewise, in *The Wealth of Nations*, he refers to "its [grain's] real value, or the quantity of labour which it is capable of maintaining" (WN, 535.32). It is hard to make sense of these statements. What is a good's "real value"? The amount of time needed to produce it? On one

¹ Buchanan and Yoon (1999) attempt to reconcile Smith's analysis of increasing returns with his claim that the laboring class will receive its just due. The development of neoclassical theory required jettisoning Smith's increasing returns assumption. It wreaked havoc on competitive models because it implied a world populated by monopolies. Furthermore, it suggested labor might not receive a just wage. Buchanan and Yoon (1999) claim that Smith avoided the problem of exploitation by assuming generalized increased returns. The size of the market matters. As market size increases, production of new goods and services become possible. When few people interact with one another, the extent of specialization is limited. It simply does not make sense to concentrate on one activity when many must take place.

hand, it is merely obvious that in order to expend time and effort (or toil and pain) to acquire certain skills, the artisan or laborer must expect that his eventual payment will compensate for the opportunities forgone during the years of study or training. On the other hand, Smith's explanation of the "natural price" based on labor is just as subjective as any subsequent theory of market prices. To admit that outright, however, would be to admit that nobody could guarantee you will receive compensation for your pain and toil. Smith's explanation of the natural price is really no explanation at all, as it merely sweeps the questions about the value of labor itself aside. We conjecture that Smith understood the incoherence of the theory. Yet as Peach (2009, 401) suggests, he never explicitly disavowed it.

Robertson and Taylor (1957, 188) note: "It seems that there may always remain a certain rather fascinating aura of mystery as to why the most crucial elements in these ideas [about value] were hidden in the background of the *Wealth of Nations* almost as though by some deliberate process of censorship" (italics added). Whereas Smith often writes in pungent prose about the errors of the mercantilists, he tries to accomplish something subtler in his discussion of value. He begins by granting the usefulness of a labor theory of value but leads his audience through a discussion so that they cannot help but acknowledge the insufficiency of such a theory in explaining prices in the modern economy. Smith's entire discussion is an example of a kind of pedagogical esotericism whereby he: "make[s] special effort to enter sympathetically into the received opinions of his time and place . . . while pointing quietly to certain puzzles or contradictions within those opinions" (Melzer 2014, 216). That is, he "accepts" a labor theory so as to make the case for the dignity of the laboring classes.

Fleischacker (2004) interprets Smith's labor theory as a persuasive maneuver that allows him to argue that "measuring goods by labor rather than labor by goods has useful implications

for a concrete historical task Smith wants to carry out, but also enables him to sharpen a general question he has been implicitly been raising . . . about the value of an advanced division of labor” (127). Herring and Longaker (2014) highlight the rhetorical stickiness of the labor theory of value, which they abbreviate LTV: “Despite the LTV's troubles, many Marxian economists have remained hide-bound to the theory, since it has allowed them to emphasize class conflict and a revolutionary political agenda” (204). Our interpretation differs, in that we argue that Smith knowingly favors the esoteric approach at the expense of the analytical in describing the LTV.

Herring and Longaker (2014) argue that the LTV persisted because it served a political purpose for Smith, as it did for Marx. It offered an appeal to justice since the laboring classes would receive appropriate compensation in a world without feudal shackles. But Herring and Longaker view capitalism as exploitive and ultimately claim that Smith’s rhetorical argument is unconvincing. Their argument, though flawed, highlights an avenue to better understand Smith’s muddled discussion. They fail to recognize labor’s interaction with property as a means to provide dignity to laborers.

In order to understand why Smith adopted the language of a LTV to make his case, it’s helpful to recall his four stage ‘conjectural’ history. The first is the age of hunters where people subsist and invest very little in capital. There is little division of labor and one’s efforts determine whether or not you survive. The scene of work is visible to all and involves all. The next stage is the age of shepherds. Now individuals have domesticated animals and move with their herds. Again there is little specialization but more than the age of hunters. The scene of work is still commonly perceived. The third stage is the age of agriculture. The division of labor expands and groups develop technologies to increase productivity. Finally, people enter the age

of commerce where there is a vast division of heterogeneous labor working with ever more productive technologies. The scenes of work become very divided and disjointed.

Smith recognized that humanity spent many more years in the first three stages where norms and beliefs developed. During these periods, labor—the scene or picture of work—provided the framework for thinking about the sources of value. But as society moved to the commercial age, labor became more heterogeneous. But Smith recognized that people’s beliefs did not keep pace with economic change. Norms and beliefs lagged behind. In order to make his case for the liberal plan in *The Wealth of Nations*, he wanted to assure the laboring classes that under that plan their labor was honored and rewarded.

The Wealth of Nations is more than an abstract treatise of economic principles; Smith also wanted to build a case for the liberal plan. Smith, like no one before or since, argued that the division of labor within a system of “peace, easy taxes, and a tolerable administration of justice” (Stewart 1793) would promote opulence, especially for the laboring classes. These institutional foundations highlight the role of property in sustaining the division of labor. At the time Smith wrote, his ideas did not have much support in the halls of economic, political, or social power. The movement toward free trade in England would take decades. Smith knew, we conjecture, that he needed to persuade the poor that this transition would not only benefit them materially but would provide a sense of dignity and self-respect. He also wanted to improve the lot of the laboring classes. But given the times, he could not directly advocate for the poor. Instead he had to engage in esotericism to make his case.

Another reason to think Smith recognized the centrality of labor in making a moral case for the liberal plan is his treatment of property rights. His argument blends a labor theory of value with the sacredness of property. These two ideas complemented each other. Smith wrote,

“The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable” (WN, 138). One’s own person is the original property, and private property plays a key role in so much of Smith’s liberal plan. While Smith does not offer a labor theory of property precisely, his sympathetic “impartial spectator” approach in ethics helps us to see how the two concepts are closely related. People own themselves. We extend the realm of what belongs to us by way of labor contracts, for the toil and pain labor requires. The impartial spectator validates our feeling that when we contract to expend our labor in the world, we deserve the recompense agreed and due—one of Smith’s three “sacred laws” of commutative justice (TMS, 84). Individuals have a just and reasonable expectation of exclusive rights to property when they labor in the world. It seems reasonable, then, that Smith would want to enshrine labor in his liberal plan.

But perhaps more importantly, Smith’s rhetoric seems to sanctify the concept of labor as an abstract calling similar to Max Weber’s famous argument. Smith encourages the laborer to take pride in his work as a source of value and the engine of economic growth. The result was, as Weber describes it: “The treatment of labour as a calling became as characteristic of the modern worker as the corresponding attitude toward acquisition of the business man” (Weber 2011, 174). Labor earned an honest income. The laborer received what he or she deserved based on the labor. It did not result from the benevolence of the boss or the altruism of others. Rather, their work merited just compensation, monetary and non-monetary. It is precisely this nearly inscrutable approach that we believe Smith intended to use in order to promote the liberal plan.

5. Conclusion

Smith purposefully muddled his discussion of the theory of value in order to influence more than economic theory. He sought to change public policy and attitudes in the direction of “the liberal plan.” In order to do so, he sported a labor theory of value. If he had not, the movement toward liberal attitudes and reform might have stalled. Herring and Longaker (2014,198) argue that “as a political defense, Smith’s LTV offers a robust claim that capitalist society is just because the free market for labor and commodities most generously rewards all its participants, workers and capitalists alike.” Thus, rejecting the labor theory of value might have seemed unwise for the rhetorically savvy Smith.

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