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Some Implications of Adam Smith's Causal Explanations of the Variations in the Value of Commodities: Rent Theory and Value Analysis (2)*

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1. Introduction

According to my latest paper, Nakagawa 2021, in the case of Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith 1976; 1776; hereafter, to be cited as WN), while the rent of land varies with its fertility and its location, and with the original expense of improvement, the rent itself occurs when the price (real price) of the produce of land surpasses the necessary amount of stock along with the ordinary profit per unit of produce, and, the surplus (the differential) becomes the rent of land under the free competition. Therefore, if we want to know the amount of rent, and its variations affected by the progress of improvement (in effect, the progress of economic development, the progress of social development), we must first know the price of the produce, and its variations. Because of it, Smith put 'Digression concerning the Variations in the Value of Silver during the Course of the Four last Centuries' (hereafter, to be cited as 'Digression') —and 'Effects of the Progress of Improvement upon the real Price of Manufactures' (hereafter, to be cited as 'Effects') which treats the price of the manufactured goods as a different range of goods from the land's produce—in chapter 11 'Of the Rent of Land' which treats a problem of income distribution. Smith, in some parts of chapter 11, preceding 'Digression', discusses the price of the produce of land which explains the origin of the rent of land, and, in 'Digression', 'Effects', and also in some other places of WN, Smith, utilizing the labour-commanded or the corn-commanded measure—in 'Digression', Smith, first, attempts to show that the variations in the money price of corn during the course of the four last centuries has been due mainly to the variations in the value of silver, not to the variations on the corn side, during the above period—, seeks to analyze the long-run trends of the variations in the price (real price; real exchangeable value[1)]) of various products including silver, under the progress of improvement. Smith's analysis here has the tendency to explain the determination of commodities' values (prices) and the changes of commodities' values, in terms of the supply and demand relations. However, in his explanation, Smith uses the factors which could be linked to, so-called, the supply-demand theory of value, the

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cost-of-production theory of value, or the labour-input theory of value (the labour-embodied theory of value). In this sense, Smith's discussion, as such, has aspects which might puzzle readers from the viewpoint of the above three theories of value.

As to the above issue, I sought the way to understand Smith's causal explanations as a consistent argument of value theory, in section 7 of Nakagawa 2021. And I suggested a thought that he might have, in effect, the idea something similar to the market demand functions and the market supply functions of commodities, and he might intend to explain the changes of the real exchangeable value of commodities in the long run by the changes in independent variables, which are contained in the functions and are suitable to explain the price changes.

In this paper, I will consider the consistency of the above Smith's causal explanations with his arguments in chapters 5, 6, and 7 of book 1 of WN. Also, I will try to clarify the relationships which those of Smith's discussions have to D. Ricardo's and T. R. Malthus's.

2. The Consistency with the Arguments in Chapters 5, 6, and 7

If we accept the above interpretation about Smith's causal explanations of the variations in the value of commodities, the question to be asked next should be the consistency between the arguments in chapter 11 and the arguments in chapters 5, 6, and 7.

2.1 Relating to Chapter 5: The Measure of Value (Labour-Commanded Measure, Corn-Commanded Measure) and The Determination of Value

The arguments in chapter 11 are consistent with the arguments in chapter 5. Smith, in chapter 11, deals with the subject of 'the progress of improvement' and the long run trends of the variations in the real exchangeable value (real price) of particular commodities, utilizing his labour-commanded measure and corn-commanded measure. He is carrying out what he foretold in chapter 5 (see WN I.v.10, 22)[2].

Smith, in chapter 11, seeks to causally explain the long run trends of the variations in the real exchangeable value (real price) of particular commodities through the changes in population, income, production cost, necessary labour-input and so on, which could have effects on the supply and demand for those commodities, using the factors which could be linked to, so-called, the supply-demand theory of value, the cost-of-production theory of value, or the labour-input theory of value (the labour-embodied theory of value).

In these discussions in chapter 11, the problem of the measure of value and the problem of the regulation (determination) of value are different problems, though they have a relation to each other. This point also, has a consistency with Smith's arguments at the end of chapter 4 and in chapter 5, and even confirms Smith's ideas in those places.

2.2 Relating to Chapter 6: Three Component Parts of the Price as Distributive Shares, and Three Kinds of Incomes and Classes

In chapter 6, Smith writes, 'As the price or exchangeable value of every particular commodity, taken separately, resolves itself into some one or other, or all of those three parts; so that of all the commodities which compose the whole annual produce of the labour of every country, taken complexly, must resolve itself into the same three parts, and be parcelled out among different inhabitants of the country, either as the wages of their labour, the profits of their stock, or the rent of their land. The whole of what is annually either collected or produced by the labour of every society, or what comes to the same thing, the whole price of it, is in [this] manner originally distributed among some of its different members. Wages, profit, and rent, are the three original sources of all revenue as well as of all exchangeable value. All other revenue is ultimately derived from some one or other of these' (WN I.vi.17).

Smith writes in 'Conclusion of the Chapter' of chapter 11, 'The whole annual produce of the land and labour of every country, or what comes to the same thing, the whole price of that annual produce, naturally divides itself, it has already been observed, into three parts; the rent of land, the wages of labour, and the profits of stock; and constitutes a revenue to three different orders of people; to those who live by rent, to those who live by wages, and to those who live by profit. These are the three great, original and constituent orders of every civilized society, from whose revenue that of every other order is ultimately derived' (WN I.xi.p.7).

Smith's interest is not in the 'original state of things', but in the civilized society where the progress of improvement proceeds. There, the produce of land generally affords rent. Rent is established as a fundamental category of incomes, together with wages and profit (see Nakagawa 2021, sec. 5). Smith's above observations in chapter 6 are relating to the state of society where the accumulation of stock and the appropriation of land exist (the civilized society where the progress of improvement proceeds). Therefore, Smith's remark in paragraph 17 of chapter 6 in which the rent is expressed as one of the three original sources of all revenue, as well as wages and profit, has no inconsistency with his arguments in chapter 11, in this context[3)].

The problem is that the rent is also, in the same place, expressed as one of the three original sources of all exchangeable value, as well as wages and profit.

In chapter 11, the condition that the stock owner (the capitalist) continually organizes the commodity production, investing his stock (capital), is the ordinary price of the produce being high enough to recover the stock which is required to produce and bring the commodity to the market with the ordinary profit, i.e., the continually realized ordinary price being high enough to realize the ordinary profit, covering cost payments from his stock (capital) per unit of his product. In this sense, wages and profit might be causes of the price, as long as they are involved in setting the lowest level of actual price. But the rent occurs when the actual price surpasses the lowest price, and the difference becomes the rent. Smith's interest is not in the 'original state of things', but in the civilized society where the progress of improvement proceeds. There, the produce of land generally provides rent. Rent is established as a fundamental category of incomes, together with wages and profit. However, rent is not a cause of the price of produce, it occurs as an effect of the price, as an effect of the price determination (see Nakagawa 2021, sec. 4).

In the 8th paragraph of chapter 11, Smith writes, 'Rent ... enters into the composition of the price of commodities in a different way from wages and profit. High or low wages and profit, are the causes of high or low price; high or low rent is the effect of it' (WN I.xi.a.8). In 'Conclusion of the Chapter' of chapter 11, as we saw above, Smith, using the phrase, 'it has already been observed', writes, 'The whole annual produce of the land and labour of every country, or what comes to the same thing, the whole price of that annual produce, naturally divides itself, it has already been observed, into three parts; the rent of land, the wages of labour, and the profits of stock; and constitutes a revenue to three different orders of people; to those who live by rent, to those who live by wages, and to those who live by profit. These are the three great, original and constituent orders of every civilized society, from whose revenue that of every other order is ultimately derived'.

Certainly, between Smith's two ideas, on one hand, the idea of wages, profit, and rent as three original sources of all exchangeable value, in chapter 6, and, on the other hand, the idea of high or low wages and profit as causes of high or low price; high or low rent as the effect of high or low price, in chapter 11, we might see something of an inconsistence.

If we suppose Smith's position in chapter 11 is his ultimate position, how should we interpret his arguments in chapter 6? If there are any points to be qualified in his arguments, how should we qualify them? Here, I try to approach Smith's arguments from these points of view.

Smith, in the final part of chapter 4, before establishing his idea of the labour-commanded measure of value in chapter 5, lists three themes which are addressed in chapters 5 to 7. He writes, as to the second theme, 'Secondly, what are the different parts of which this real price is composed or made up' and promises he will address this theme in chapter 6 (WN I.iv.16, 18). And the title of chapter 6 is 'Of the component Parts of the Price of Commodities'.

As we saw above, in Smith's discussion in chapter 11, there are two different ways to enter into the composition of the price (see WN I.xi.a.8). One is as the cause of the price, and the other is as the effect of the price. Accordingly, in his discussion, the component parts are not necessarily the causes of the price. Also, as we saw in note 3, when he writes, in chapter 6, 'These three parts [i.e., rent, wages, and profit] seem either immediately or ultimately to make up the whole price of corn', the phrase, 'make up' is used to refer to the distributive shares from the price, rather than to the causal explanation of the price. In Smith's discussion, the expressions, 'composition' of the price, and 'make up' the price, are referring to distributive sides of the price, rather than the causal explanation of the price. They are not conceived for causally explaining the price.

Smith's main subject in chapter 6 is what composes the price of commodities, i.e., the component parts of the price of commodities. The matters in which the components of the price of commodities are involved, are, in effect, the distributive shares, into which the price of commodities resolves itself[4).]

In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the whole produce of labour belongs to the labourer (the component part of the price is wages only). As a corollary, '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 I.vi.4).

As soon as stock has accumulated in the hands of particular persons, the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock who employs him (the component parts of the price are wages and profit). As a corollary, 'the quantity of labour commonly employed in acquiring or producing any commodity' is not 'the only circumstance which can regulate the quantity which it ought commonly to purchase, command, or exchange for' (WN.I.vi.5, 7) (labour-commanded > labour input).

In most cases, when the land of any country has all become private property, the produce from the land is shared among the stock owner, the landlord, and labourers (the component parts of the price are wages, profit, and rent) (WN I.vi.8-10) (labour-commanded > labour input).

Smith's main interest here is the component parts of the price of commodities, i.e., the distributive shares, into which the price of commodities resolves itself.

After establishing his idea of real measure of value in chapter 5, Smith, in chapter 6, showed his ideas of three fundamental class categories in the society; labourers, stock owners (in effect, capitalists), and landowners, and also, the corresponding three fundamental income categories; wages, profit, and rent, through discussing the component parts of the price of commodities.

Smith's interest is in the analysis of the civilized society, i.e., the society where the progress of improvement proceeds, the produce of land, generally, provides rent, and the rent is established as a fundamental income category, as well as wages and profit, not in the analysis of the 'original state of things'[5)].

2.3 Relating to Chapter 7: The Component Parts of the Natural Price, and the Determination of the Actual Price

If we suppose Smith's position in chapter 11 is his ultimate position, how should we interpret his arguments in chapter 7? Here, I try to approach Smith's arguments from this point of view, same as in 2.2.

In chapter 7, Smith, first, tries to explain the concept of natural price. And his problem here, is what composes the natural price of commodities, i.e., the component parts of the natural price of commodities. The matters in which the components of the price of commodities are involved, are, in effect, the distributive shares, into which the natural price of commodities resolves itself. Smith's discussion of the components of the price of commodities in chapter 6 is not the discussion of the causal explanation of the price of commodities. It does not imply a cost-of-production theory of price, or an adding-up theory of price. His discussion of the components of the natural price of commodities is not, in the same manner, the discussion of the causal explanation of the natural price of commodities. It does not imply a cost-of-production theory of natural price, or an adding-up theory of natural price[6)].

In the civilized society, the actual price of land's produce which is determined by some factors (in effect, by supply and demand for the produce), generally, resolves itself into the share as wages (wage rate × the quantity of labour input), the share as profit (profit rate × the quantity of stock input), and the share as rent (rent rate × the quantity of land input). When each share is the share at the natural rate, i.e., wage share at the natural rate, profit share at the natural rate, and rent share at the natural rate (wage rate, profit rate, and rent rate are natural rates), the actual price is equal to the natural price. However, each share can change because of the variations in each natural rate, and the variations in the quantities of labour input, stock input, and land input by the changes of technology (There is in every society or neighbourhood an ordinary or average rate both of wages and profit in every different employment of labour and stock. This rate is regulated partly by general circumstances of the society, their riches or poverty, their advancing, stationary, or declining condition, and partly by the particular nature of each employment. There is likewise in every society or neighbourhood an ordinary or average rate of rent, which too is regulated partly by the general circumstances of the society or neighbourhood in which the land is situated, and partly by the natural or improved fertility of the land. These ordinary or average rates may be called the natural rates of wages, profit, and rent, at the time and place in which they commonly prevail. WN I.vii.1-3).

In Smith's discussion, this natural price is expressed as 'the price of free competition', 'the lowest which can be taken, not upon every occasion, indeed, but for any considerable time together', 'the lowest which the sellers can commonly afford to take, and at the same time continue their business', in contrast to the price of monopoly, which is 'the highest which can be got', 'upon every occasion the highest which can be squeezed out of the buyers, or which, it is supposed, they will consent to give' (WN I.vii.27).

In Smith's discussion, this natural price is, in effect, the price which embodies the justice in exchange as well as the justice in distribution at the same time. If we say in terms of his *The Theory of Moral Sentiments* (Smith 1976; 1759; hereafter, to be cited as TMS), this natural price is the price which the impartial spectator will approve.

The matter for Smith is how closely the actual price gets to the natural price. Seeing the problem from this viewpoint, he proceeds to discuss how the actual price is determined or regulated.

According to Smith, 'The actual price at which any commodity is commonly sold is called its market price'. And 'The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour, and profit, which must be paid in order to bring it thither. Such people may be called the effectual demanders, and their demand the effectual demand' (WN I.vii.7-8).

In Smith's discussion, the accord and discord between the actual price and the natural price are, in effect, reflected in the accord and discord between the actual wage rate and the natural wage rate, between the actual profit rate and the natural profit rate, and between the actual rent rate and the natural rent rate. When the actual wage rate for labour, the actual profit rate for stock, and the actual rent rate for land in the production of the commodity concerned, for example, are all less than the natural rates (the actual price of the commodity concerned is less than its natural price), under the free competition, the production factors will flow out to other kinds of commodity production sectors where they can get at least natural rates or more than natural rates. This causes the reductions of supply of the commodity concerned. The actual price of the commodity rises and tends to approach the price level at which the commodity price can resolve itself into wages, profit, and rent at their natural rates (the level of natural price). On the other hand, when the actual wage rate for labour, the actual profit rate for stock, and the actual rent rate for land in the production of the commodity concerned, for example, are all more than the natural rates (the actual price of the commodity concerned is more than its natural price), under the free competition, the production factors will flow into this commodity production sector from other sectors. This causes the increase of supply of the commodity concerned. The actual price of the commodity falls and tends to approach the price level at which the commodity price resolves itself into wages, profit, and rent at their natural rates (the level of natural price). The actual price of commodities tends to converge at the natural price of commodities, through processes such as these[7)].

Smith lists the causes which prevent the actual price of commodities from converging at their natural price in the above manner, i.e., particular accidents, natural causes, and particular regulations of police, and he discusses each of them. These discussions constitute a strong support for his claim of the freedom of economic activities or the economic liberalism.

In 2.2 and this 2.3, I tried to approach Smith's arguments from the viewpoint that if his position in chapter 11 of book 1 of WN is his ultimate position, how we should interpret his arguments in chapters 6 and 7.

Smith's arguments in chapter 11 also, as Malthus's ideas referred to in notes 4 and 6 of this paper suggest, have some significant aspects which have relevance to the arguments of Ricardo and Malthus.

3. Smith, Ricardo, and Malthus

In 6.2 of section 6 of Nakagawa 2021, I showed the list which was reconstructed from Smith's analysis relating to the long-run trends of the variations in the value (price) of a variety of products in the progress of improvement.

As we can see from that list, Smith analyzes the variations in real exchangeable value of a variety of products, using the factors which could be linked, if we say from today's viewpoint, to, so-called, the supply-demand theory of value, the cost-of-production theory of value, or the labour-input theory of value (the labour-embodied theory of value). Smith's discussion gives readers an interesting analysis.

However, at the same time, Smith's discussion, as such, has aspects about which readers might be puzzled, from the viewpoint of the above theories.

In section 7 of Nakagawa 2021, I suggested a possible solution to this problem. In section 2 of this paper, I examined the consistency between the discussions in chapter 11 of book 1 of WN as interpreted in section 7 of Nakagawa 2021, and the discussions in chapters 5, 6, and 7 of book 1 of WN.

At the same time, Smith's discussions in chapter 11 (as well as discussions in chapters 5, 6, and 7) have, also, aspects which lead us to foresee the discussions of Ricardo and Malthus, a generation later.

As it is well known, Ricardo and Malthus, in each of their own ways, on the basis of Smith's economics, sought to correct defects, and to fill the inadequate parts in Smith's economics. The economics of Ricardo and the economics of Malthus are two different systems which were constructed through this process. Here, I like to take up some points relating to Smit's discussions in chapter 11 and discussions of Ricardo and Malthus.

In the explanation of rent in chapter 11, Smith mentions that the rent of land varies with its fertility and its location, and with the original expense of improvement. But, as to the origin of rent from the land's produce, he thinks that the price of produce is determined by supply and demand for the produce, and when that price surpasses the amount sufficient to recover the stock which was invested into the production with the ordinary profit, i.e., when that price surpasses the necessary amount of stock (for paying wages and so on) plus the ordinary profit per unit of produce, the surplus (the differential) will be the rent of land, under the free competition. And, according to him, although in the 'original rude state' of things there might be a sort of land's produce which does not provide rent, in the civilized society where the progress of improvement proceeds, the land's produce generally provides rent (see, for example, Nakagawa 2021, secs. 4, 5).

In the civilized society, according to Smith's arguments, the land's produce generally provides rent, and rent is established as a fundamental category of incomes, together with wages and profit, and there, rent is not a cause of price. It occurs as an effect of price, i.e., as an effect of the price determination. In this context, Smith turns to analyze the trends of the variations in the real price (real exchangeable value) of the land's produce in the society where the progress of improvement proceeds, and in the continuation of this analysis, he tries to analyze the trend of the variations in the real price of manufactured goods in the society where the progress of improvement proceeds (see, for example, Nakagawa 2021, secs. 2, 6).

Smith's analysis of the trends of the variations in the real price (real exchangeable value) of products, which was done in the above context, was developed, using the factors which could be linked to, so-called, the supply-demand theory of value, the cost-of-production theory of value, or the labour-input theory of value (the labour-embodied theory of value).

A generation later, Ricardo thinks out the two kinds of labour, one is the labour which is applied immediately to commodities (direct labour), and the other is the labour which is bestowed on the implements, tools, and buildings (capital goods), with which the former labour is assisted (indirect labour). He then seeks to explain the regulation or determination of the value of commodity by the quantity of labour which is formed with quantities of the two kinds of labour. In this way, he thinks, the explanation of the regulation of the commodity value by the quantity of labour bestowed will become applicable to the society where the capital exists (Ricardo 1951; 1817, chap. 1, secs. 1, 3).

The market price of the same kind products of land under the free competition, according to Ricardo's arguments, corresponds to the quantity of labour required for producing them in the most inferior degree land. The part which corresponds to the differential between the quantity of labour required for producing them in the most inferior degree land and the quantity of labour required in the first-degree land, becomes the rent of the first-degree land, and, in the most inferior degree land, the rent is zero—therefore, in the case of Ricardo too, as the cultivation expands through economic development (as marginal land expanding), the rent income increases—. In this sense, there, the rent does not participate in the determination of the value of commodities (Ricardo 1951; 1817, chap. 2)[8].

Ricardo, in effect, thinks that each value of commodities which is determined by the quantity of labour required for producing them, resolves itself into wages and profit. According to Ricardo, rent is the value differential which corresponds to the differential between the quantity of labour required for producing commodities in the most inferior degree land and the quantity of labour required in the superior degree land, and, the residual part after deducting wage share from the value of commodity which is determined by the quantity of labour required for producing it, becomes profit share (Ricardo 1951; 1817, chap. 6).

At the beginning of chapter 6 of book 1 of WN, Smith writes, '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 I.vi.1). He also writes, '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 I.vi.4). Here, Smith presents his idea that in the early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the quantity of labour necessary for producing a product—the quantity of labour which it costs to produce the product, or the quantity of labour employed in producing the product—explains the determination of the real price (the real exchangeable value) of the product. Ricardo constructed, in the above form, the logic which proves that the explanation of the determination of value of a commodity by the quantity of labour necessary for its production, is applicable even to the society where the accumulation of stock and the appropriation of land exist.

Based on that logic, Ricardo built his arguments relating to rent, wages, and profit which we saw above. As to Smith, I considered in 2.2 and 2.3 of section 2 of this paper, when we regard his position in chapter 11 as his ultimate position, how we should interpret his arguments in chapters 6 and 7. Then, I suggested, for one thing, the way to see Smith's arguments concerning the component parts of price in chapter 6 and the natural price in chapter 7, from, in effect, the viewpoint of the resolution theory of value (price) rather than the cost-of-production theory of value (price).

We also saw Smith's discussion concerning the natural price and market price. Ricardo also takes up, for example, the problems relating to natural price and market price (Ricardo 1951; 1817, chap. 4). He admits the variations in the market price of commodities are caused by the variations in the relation of supply and demand for commodities. And, in effect, identifying price with value, he thinks that the market price of commodities, under the free competition, tends to converge at the natural price of commodities which makes it possible to attain the usual profit (i.e., the natural profit which is at the natural profit rate) and the natural wage rate (i.e., in effect, the wage rate which is explained by a sort of subsistence theory of wages).

On the other hand, Malthus makes a distinction among the value in use as the intrinsic utility of an object, the nominal value in exchange as the value of commodities in the precious metals, and the real value in exchange as the power of an object to command in exchange the necessaries and conveniences of life, including labour, and, he takes the last kind of value as his main subject (Malthus 1820, chap. 2, sec. 1; see, also, Malthus 1974; 1836, bk. 1, chap. 2, sec. 1). As to the determination of the real value in exchange (value), he adopts the approach of the supply-demand theory of value which we can see in WN, book 1, chapters 7 and 11 (Malthus 1820, chap. 2, sec. 2. Malthus 1974; 1836, bk. 1, chap. 2, sec. 2).

As to the cost of production (in the case of Malthus, wages, profit, and rent are cost items; in the case of Ricardo, wages and profit; when Smith discusses the determination of the price of product in the context of the explanation of rent in chapter 11, his position is near to Ricardo's), Malthus argues that it only influences the prices of commodities, as the payment of this cost is the necessary condition of their continued supply in proportion to the extent of the effectual demand for them. He also argues that the price of each of components of the cost of production, wages, profit, and rent is determined by supply and demand for each production factor, labour, capital, and land (Malthus 1820, chap. 2, sec. 3. Malthus 1974; 1836, bk. 1, chap. 2, sec. 3. Ricardo 1951, pp. 42-45n. 16; see, also, nn. 3, 4 of this paper).

According to Malthus, although the price of every commodity is generally determined by supply and demand for the commodity, the price of manufactures provides only wages and profit, and the price of raw produce (agricultural produce) usually provides rent, in addition to wages and profit. He thinks that the causes of the ordinary excess of the price of raw produce above the wages and profit as the costs of production, i.e., the causes of rent, may be stated to be three. First, and mainly, the quality of the soil, by which it can be made to yield a greater quantity of the necessaries of life than is required for the maintenance of the persons employed on the land. Secondly, the quality peculiar to necessaries of life, when properly distributed, of creating their own demand, or of raising up a number of demanders in proportion to the quantity of necessaries produced. And, thirdly, the comparative scarcity of fertile land, either natural or artificial (Malthus 1820, chap.3, sec.1. Malthus 1974; 1836, bk. 1, chap.3, sec.1).

Smith, for example, points out in 'Conclusion of the Chapter' of chapter 11 that the rate of rent changes in an advantageous manner to it, and the proportion of the share of rent income to the whole income of the society increases, in the progress of improvement, that both the rate of rent and wage rate have a positive correlation with the progress of improvement while the profit rate has a negative correlation with the progress of improvement, and that the interest of landowners and labourers is the same with that of the society, and the interest of stock owners (capitalists) is not the same with that of the public (see Nakagawa 2021, p. 9).

In the case of Ricardo, both wage rate and profit rate are, under the free competition, at uniform rates throughout all production sectors. Wage rate is, in effect, presupposing the law of population, at subsistence level. As to profit, for example, the following sequence is conceived: capital accumulation (= the progress of society) → population growth → the growth of demand for corn → marginal land expands to inferior degree land → (if the rate of technological progress in agriculture is less than the rate of decreasing returns in agriculture) → larger quantity of labour is required for producing corn per unit in inferior degree land → the rise of corn price in the market → the increase of rent of superior degree land: in order to keep wage rate at subsistence level, under the rise of corn price (= food price), the wages' share in the value per unit of corn must increase → the decrease of profit's share in the value per unit of corn. Also, profit rate per unit of corn (amount of profit / amount of capital input) declines, under the condition that the rate of technological progress in agriculture is less than the rate of decreasing returns in agriculture (Ricardo 1951; 1817, chaps. 5, 6).

According to Ricardo's discussion, in the income distribution of society under the progress of society which means the progress of capital accumulation, although labourers' share rate increases at the expense of capital owners' share, the wage rate itself does not rise, in real terms (in real purchasing power). And landowners' share rate increases, while capital owners' share rate declines. Also, profit rate declines in real terms. Then the funds and incentives for further capital accumulation tend to proceed toward being drained.

On the other hand, in the case of Malthus, wage rate is, in effect, at subsistence level, presupposing the law of population. As to profit, the profit rate declines through the progress of capital accumulation and the decreasing returns (Malthus 1820, chaps. 4, 5. Malthus 1974; 1836, bk. 1, chaps. 4, 5). And as to rent, he argues, for example, that a progressive rise of rents seems to be necessarily connected with the progressive cultivation of new land, and the progressive improvement of the old: and this rise is the natural and necessary consequence of the operation of four causes, which are the most certain indications of increasing prosperity and wealth—namely, the accumulation of capital, the increase of population, improvements in agriculture, and a rising market price of raw produce (agricultural produce), occasioned either by a great demand for it in foreign countries, or by the extension of commerce and manufactures (Malthus 1820, chap. 3, sec. 3. Malthus 1974; 1836, bk. 1, chap. 3, sec. 3).

4. Conclusion

Smith's interest which runs throughout WN, is in the riches or poverty of the society, the advancing, stationary, or declining condition of the society, and, especially, in the advancement and the progress of improvement of the society.

In chapters 8, 9, and 11 of book 1, Smith approached the problems of the distribution, basically from the above perspective, as stated at the end of chapter 7.

In chapter 11, Smith treated the problem of the rent of land. In his discussion, the land rent varies with its fertility and its location, and with the original expense of improvement, but the rent itself occurs when the price (real price) of the produce of land surpasses the necessary amount of stock plus the ordinary profit per unit of produce, and, the surplus (the differential) becomes the land rent, under the free competition. In order to explain the existence of rent, and its variations affected by the progress of improvement of the country or the area, he had to explain first, the price of the produce of land, and its variations.

Smith analyzed the price and its variations of a variety of products including silver, by measuring the price in terms of the labour-commanded or the corn-commanded. Smith's analysis there had the tendency to explain the determination of commodities' values (prices) and the changes of their values (prices) in terms of the supply and demand relations. At the same time, in his explanation, Smith used the factors which could be linked to, so-called, the supply-demand theory of value, the cost-of-production theory of value, or the labour-input theory of value (the labour-embodied theory of value). In this sense, Smith's discussion, as such, has aspects about which readers might be puzzled, from the viewpoint of the above three theories of value.

As to the above issue, I sought the way to understand Smith's causal explanations as a consistent argument of value theory, in section 7 of Nakagawa 2021. And I suggested a thought that he might have, in effect, the idea something similar to the market demand functions and the market supply functions of commodities, and he might intend to explain the changes of the price (real exchangeable value) of commodities in the long run by the changes in independent variables, which are contained in the functions and are suitable to explain the price changes[9].

In this paper, I considered the consistency of the above Smith's causal explanations with his arguments in chapters 5, 6, and 7 of book 1. Also, I tried to clarify the relationships which those of Smith's discussions have to Ricardo's and Malthus's.

In my view, the arguments in chapter 11 are consistent with the arguments in chapter 5.

As to chapter 6, Smith's idea that in the civilized society—which is different from the early and rude state of society where the quantity of labour-input is the only determinant of the real price (the real exchangeable value) of the product—, wages, profit, and rent are the three original sources of all revenue, is consistent with Smith's position in chapter 11.

However, as to Smith's idea that in the civilized society, wages, profit, and rent are the three original sources of all exchangeable value, it seems difficult to see the consistency between this idea in chapter 6 and Smith's position in chapter 11.

On the other hand, the main subject of chapter 6 titled as 'Of the component Parts of the

Price of Commodities', is what composes the price of commodities, i.e., the components of the price of commodities. It is possible to interpret what composes the price of commodities (the components of the price of commodities) as meaning, in effect, the distributive sides of the price, rather than causal explanation of the price. It is possible to interpret the component parts of the price of commodities as meaning, in effect, the distributive shares into which the price of commodities resolves itself. At least in this context, the discussions in chapter 6 and in chapter 11 can be consistent.

Also, as to chapter 7, we can read Smith's arguments there as consistent with his arguments in chapter 11 in the following way.

Smith's problem about the natural price of commodities can be regarded as the problem what composes the natural price of commodities, i.e., the components of the natural price of commodities. This problem is the same problem as in chapter 6, except the price here is natural price. In this sense, Smith's discussion in chapter 6 and his discussion relating to natural price in chapter 7 are not the discussions of the causal explanation of the price of commodities. They do not imply a cost-of-production theory of price, or an adding-up theory of price. The matter for Smith is how closely the actual price, i.e., market price gets to the natural price, i.e., the ideal price (which, for example, embodies the justice in exchange as well as the justice in distribution at the same time, and, if we say in terms of TMS, is the price which the impartial spectator will approve). Seeing the problem from this viewpoint, he proceeds to discuss how the actual price is determined or regulated.

In his causal explanation of the actual price (market price) of commodities, Smith says, 'The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour, and profit, which must be paid in order to bring it thither. Such people may be called the effectual demanders, and their demand the effectual demand' (WN I.vii.8). This is a sort of the supply-demand theory of price. And Smith's practical concern is that how closely the actual price can get to the natural price, and, in what ways we can facilitate it.

The last point which I treated in this paper is that these Smith's arguments also, as Malthus's ideas referred in notes 4 and 6 of this paper suggest, have some significant aspects which have relevance to the arguments of Ricardo and Malthus.

Ricardo sought to construct, for example, the logic which shows that the explanation of the determination of value of a commodity by the quantity of labour necessary for its production, is applicable even to the society where the capital and the appropriation of land exist. Based on that logic, he argues that rent is the value differential which corresponds to the differential between the quantity of labour required for producing commodities in the most inferior degree land, and the quantity of labour required in the superior degree land, and, the residual part after deducting wage share from the value of commodity becomes profit share. He admits the market price of commodities can vary due to the variations in the relation of supply and demand for commodities. And, in effect, identifying price with value, he thinks that the market price of commodities, under the free competition, tends to converge at the natural price of commodities which makes possible to attain the natural profit rate and the natural wage rate.

On the other hand, Malthus adopts the approach of the supply-demand theory of value when he deals with the determination of the real value in exchange (value; price) of the product and the determination of the rates of wages, profit, and rent, i.e., the price of each cost item of production. He also argues that the cost of production (cost items are wages, profit, and rent; in the case of Ricardo, wages and profit; when Smith discusses the determination of the price of product in the context of the explanation of rent in chapter 11, his position is near to Ricardo's) only influences the prices of commodities, as the payment of this cost is the necessary condition of their continued supply in proportion to the extent of the effectual demand for them. And he argues that although the price of every commodity is generally determined by supply and demand for it, the price of manufactures provides only wages and profit, and the price of agricultural produce usually provides rent, in addition to wages and profit.

We can say that Smith's discussions in chapter 11 and, in connection with them, the discussions in chapters 5, 6 and 7 provided Ricardo and Malthus with the elements which played the basic roles in constructing their own theories of value and distribution a generation later.

Furthermore, for example, Smith, in 'Conclusion of the Chapter' of chapter 11, showed the discussions relating to the income distribution among three classes in the progress of improvement. This viewpoint was succeeded by Ricardo and Malthus in their own ways and led them to develop their own arguments.

Notes

1) In Smith's discussion, in effect, the real price is a price which is expressed in terms of labour, i.e., the real measure of value. It is synonymous with the real value, and the real exchangeable value (the real value in exchange; the real exchange value), except the case of the real price in the 'popular sense'. The nominal price is a price which is expressed in terms of money. It is synonymous with the nominal value, and the nominal exchangeable value (the nominal value in exchange; the nominal exchange value). For details, see Nakagawa 2016, pp. 581-83, 704-5n. 20. See, also, WN I.v.8-9.

2) If we list the uses of Smith's real measure of value (and the proxy for it), we can say that Smith intended to apply his real measure to at least 6 purposes, (1) to use as an instrument in investigating the principles which regulate the exchangeable value of commodities, by measuring the real exchangeable value of commodities, (2) to measure the annual produce of a country or a society, (3) to measure the potential amount of capital accumulation by a capitalist, and a society, (4) to measure the income, (5) to measure the standard of welfare, and, (6) to measure the changes of real exchangeable value of commodities over time. For details, see Nakagawa 2016, secs. III-VI of app. II, and pp. 677-700.

3) Smith observes that in addition to these three parts, wages, profit, and rent, a fourth part may be thought to be necessary. He, in order to explain this problem, writes, using the case of corn as an example, 'In the price of corn, for example, one part pays the rent of the landlord, another pays the wages or maintenance of the labourers and labouring cattle employed in producing it, and the third pays the profit of the farmer. These three parts seem either immediately or ultimately to make up the whole price of corn. A fourth part, it may perhaps be thought, is necessary for replacing the stock of the farmer, or for compensating the wear and tear of his labouring cattle, and other instruments of husbandry. But it must be considered that the price of any instrument of husbandry, such as a labouring horse, is itself made up of the same three parts; the rent of the land upon which he is reared, the labour of tending and rearing him, and the profits of the farmer who advances both the rent of this land, and the wages of this labour. Though the price of the corn, therefore, may pay the price as well as the maintenance of the horse, the whole price still resolves itself either immediately or ultimately into the same three parts of rent, labour, and profit' (WN I.vi.11).

Smith, also, makes a remark in relation to the fixed capital and the circulating capital, in book 2, chapter

1, 'Every fixed capital is both originally derived from, and requires to be continually supported by a circulating capital. All useful machines and instruments of trade are originally derived from a circulating capital, which furnishes the materials of which they are made, and the maintenance of the workmen who make them. They require too a capital of the same kind to keep them in constant repair' (WN II.i.24).

4) For example, Malthus thinks, in effect, that for the continual production of a commodity, the three conditions, i.e., the adequate remunerations to secure the sufficient quantity of labour exertion, the sufficient quantity of capital advancement, and the sufficient quantity of land use, must be fulfilled (see Malthus 1820, pp. 78-82, Malthus 1974; 1836, pp. 74-76). And Malthus writes, 'The price of the produce will be determined by the general supply compared with the general demand', and 'The three conditions ... must, in every society, be necessarily fulfilled, in order to obtain the supply of by far the greater part of the commodities which it wants; and the compensation which fulfils these conditions, or 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;—the price of each of these component parts being determined exactly by the same causes as those which determine the price of the whole' (Malthus 1820, pp. 82-83; see, also, Malthus 1974; 1836, pp. 76-77). Although Malthus discusses, in the above, the cost of production as the conditions for the production, i.e., the conditions for the supply, the wages, profits, and rent as the components of the price of commodities (the wages, profits, and rent of which the price of commodities consists) are referred to as the contents of price. They are not considered to be the factors which explain the price causally.

5) Smith writes, for example, in chapter 8 which treats wages, 'this original state of things, in which the labourer enjoyed the whole produce of his own labour, could not last beyond the first introduction of the appropriation of land and the accumulation of stock. It was at an end, therefore, long before the most considerable improvements were made in the productive powers of labour, and it would be to no purpose to trace farther what might have been its effects upon the recompence or wages of labour' (WN I.viii.5).

The background of book 1 is a society where, in effect, the division of labour in manufacture (for example, the trade of pin-maker) which presume the existence of stock (capital), and the division of labour in the society (the social division of labour among commodity producers), are operating. Smith's interest is in the civilized society where the progress of improvement is proceeding, not in the 'early and rude state of society' ('original state of things') (WN I.vi.1, viii.5; see, also, Winch 1978, p. 90, incl., n. 1, Porta 1989, pp. 196-97, incl., n. 16, Brewer 1995, pp. 184-85, incl., n. 6, Hueckel 2000b, pp. 467-71).

E. L. Khalil insists that the context of chapter 5 (and the first four paragraphs of chapter 6) is a non-capitalist exchange in which both profit and rent are absent, i.e., exchange is aimed at consumption rather than at making profit and rent (Khalil 1991, pp. 34-36, 45n. 1). For G. Hueckel's critical comment on Khalil's insistence, see Hueckel 2000b, pp. 467-71.

6) In the first sentence of the paragraph which follows his statements cited in note 4, Malthus says, 'The price which fulfils these conditions is precisely what Adam Smith calls the natural price' (Malthus 1820, p. 83. Malthus 1974; 1836, p. 77).

7) According to my understanding, both the market price (the actual price) and the natural price should each have the real and nominal price.

8) Smith intends to explain the rent from the different types of the produce of land and discusses many kinds of the produce including the produce of mines, under the free competition. Ricardo discusses the rent and the rent of mines separately (Ricardo 1951; 1817, chaps. 2, 3), and explains the rent by using corn as the land's produce—In speaking of commodities, of their exchangeable value, and of the laws which regulate their relative prices, Ricardo means such commodities as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint (Ricardo 1951; 1817, p. 12) —. See, for example, Nakagawa 2021, p. 21.

9) D. Laidler observes that Smith was not always clear about the distinction between a cost of production and a labour theory of the determination of value, and also did not have the general notion of a market demand function in his explanation of value by the supply-demand relations. See, for example, Laidler 1981, pp. 187, 189, 190.

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