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Where is the Labor Theory of Value in Adam Smith? Adam Smith's Value Theory Revisited

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Abstract

Commentators often follow David Ricardo in looking, especially, at chapters V and VI of Book I of Adam Smith's *Wealth of Nations* as the place to find his theory of value. And most commentators attribute to Adam Smith some versions of a labor theory of value. But in those chapters, Smith is looking for a stable unit of measurement of value and the reservation price of bringing goods to market. We thus suggest that the labor theory of value in Smith is a Ricardian construct, not a Smithian one.

JEL Codes: B12, D33, D46, P42, P44

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We propose to read Adam Smith without the filter of David Ricardo's interpretation, thus suggesting that Smith does not hold a labor theory of value. We suggest instead that Smith's analysis of value and labor may be easier to understand in the context of his "violent attack […] upon the whole commercial system of Great Britain" (*Correspondence of Adam Smith* – CAS 208, 251). Smith seems to be looking at labor as a "monetary" phenomenon, as an alternative understanding of money, and as an alternative to gold and silver. We suggest that what was traditionally read as a labor theory of value may be read instead as a quest for a stable measure of value and for a medium of exchange that may explain the opportunity cost of bringing goods to market.[1] Rather than evaluating whether Smith or Ricardo is correct in his economic analysis, or with today's economic standards, we limit ourselves to trying to understand what Smith said and its consistency.

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1 Cartelier (1976) elaborates on Smith's value theory as a search for a stable measure of value, which differs from searching for the source of value. In this sense, Cartelier (1976) advances that Smith did not explain the source of value, leaving his value theory incomplete. The general editors of WN, Campbell and Skinner, share this view stating that in chapter V Smith was trying to find an invariable measure of value to make comparisons between levels of wealth at different points in time (WN I-24). Aspromourgos (2009) considers that Smith's value theory evolves from a labor theory of value to a more general theory based on scarcity and utility. This development of Smith's theory would have to do with his including demand in his analysis. We follow Aspromourgos (2009) in incorporating the demand side, but do not present Smith's value theory as going through different development stages.

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Adam Smith warned us that the study of exchange value was complicated and that even if he tried to be as perspicuous as he could be to "explain, as fully and distinctly" as he could, "some obscurity may still appear to remain upon a subject in its own nature extremely abstracted" (WN I.iv.18). The difficulty of the topic explains the significant amount of literature that has been devoted to Smith's value theory (*c.f.* Blaug 1962; Aspromourgos 2009; Hurtado 2003; Andrews 2019).[2]

David Ricardo ([1817] 2004) considered Smith to be inconsistent because Smith, while he correctly identified the source of exchangeable value, introduced other measures of value when stating that commodities are exchanged for the quantity of labor they command in the market. After Ricardo, other authors and commentators, supporters, and detractors have also claimed that Smith presents an objective theory of value identifying the labor bestowed in the production of a good as the source of its value. Joseph Schumpeter (1954, 188–9) asserts that "Smith flounders so badly in conveying the idea […] that his fundamentally simple idea was misunderstood even by Ricardo. Accordingly, he was credited with a labor theory of value – or rather with three incompatible labor theories – whereas it is quite clear from chapter 6 that he meant to explain commodity prices by cost of production, which he divides up into wages, profit, and rent."[3]

We suggest, like Schumpeter and Smith himself, that Smith was indeed unclear in his analysis of value, but that the main problems with the Smithian analysis of value come from reading Smith through the lens of a Ricardian framework, and from the influence this Ricardian framework had on future readers of Smith.

It is not Smith's alleged inconsistencies or mistakes that we are after in this text. In contrast to Ricardo and the ensuing interpretations, we take three stances for reading Book I, and especially chapter V: first, the structure of Book I where the chapter on real prices follows the chapter on money, showing Smith considered metallic money to be a faulty measure of value and provided a different one; second, the real price of commodities is not a slip, a mistake or an inconsistency in Smith's explanation of value in exchange, and it is not equivalent to the natural price of commodities; third, analytical egalitarianism allows to overcome the apparent impossibility of finding a stable measure of value in commanded labor.

1. The Structure of Book I

The interpretation of Smith as a proto-labor theorist of value relies on chapter V of Book I of WN. But in this chapter, Smith does not address the source of value (*i. e.*,

2 "Views on Adam Smith's Labor Theory of Value" virtual issue of the Journal of the History of Economic Thought, has several relevant references to this topic https://www.cambridge.org/core/journals/journal-of-the-history-of-economic-thought/virtual-issues/views-on-adam-smith-s-labor-theory-of-value.

3 Other canonical works, such as Hollander (1973), share this cost of production interpretation of Smith's value theory.

the source of value in exchange) but focuses on the measurement of value instead.[4] There Smith establishes labor as the only stable unit of measurement of value. Chapter V follows the chapter about the origin and use of money (chapter IV). And chapter IV follows the explanation that the division of labor increases the productive power of labor (chapter I), the origin of which Smith identifies in the natural propensity to truck, barter, and exchange (chapter II), which is directly connected with the extension of the market (chapter III).

In the first four chapters of Book I, Smith describes the process that leads to the emergence of a society where its members live by trade. People find what they need more easily exchanging rather than producing themselves the goods they consume. But to exchange, people must compare the value of the commodities they bring to the market, ergo the presence of value in exchange. To compare values, people need a unit of measurement. Note also that people who exchange do so to obtain commodities they will consume. They participate in exchange as consumers, not as producers. This may be why Smith talks about value in exchange and not value in production.

But let's go back to the book structure. After introducing trade in the first three chapters, Smith brings in money. In chapter IV, Smith explains that money facilitates exchange as money is the universal instrument of commerce. Money is an intermediary in exchange that eliminates the problems of the double coincidence of wants that barter has. So, money has a function as medium of exchange. One of the most common forms of instrument of commerce is precious metals, such as gold and silver. But this will become a problem when we look at the other function of money, that of being a unit of account.

Smith here sows the seed of what he will elaborate on in detail in chapter V. The value of monetarized gold and silver changes over time, both because the quantity of gold and silver changes over time (more in chapter V), and because everywhere in the world, princes and sovereigns always have incentives to decrease the quantity of metals in their coins (WN I.iv.10).

These changes in the value of money are a problem for Smith because they can cause a drastic redistribution of wealth. Debts are expressed in coined money. If one repays the same quantity of coins, but each coin contains less precious metal (WN i.iv.10), or even if one pays back the same amount of precious metal, but due to an increase in its quantity, the same amount can buy less than before (as explained later in chapter V), then there can be "a greater and more universal revolution in the fortunes of private persons, than could have been occasioned by a very great public calamity" (WN I.iv.10).

The example that Smith gives at the end of chapter IV is saying that if we measure something, the value of debt in this case, with a unit of measurement that changes over time, we should expect problems. A unit of measurement, to function as such, must be

[4] In LJ, we only find the natural price and the market price of goods. In the WN, Smith explicitly explores the measure of value. The real price allows Smith to make the link between natural and market price more precise. The real price is a universal measure that does not depend upon the general circumstances of society, as the natural price does, nor on the proportion between the effectual demand and the quantity supplied in the markets, as the market price does (Hurtado 2003, 23).

stable over time. A meter or a foot, for example, to be an effective unit of measurement of length, cannot change in length over time.

So, chapter IV introduces gold and silver as a medium of exchange as well as their poor performances as a unit of account due to their changing value. Smith ends chapter IV with these considerations while introducing that in the chapter that follows, he will analyze "the principles which regulate the exchangeable value of commodities" (WN I.iv.14), but not value in use. He states that he will show "[f]irst, what is the real *measure* of this exchangeable value; or wherein consists the real price of all commodities" (WN I.iv.15, our emphasis).

Then we have chapter V entitled "Of the real and nominal Price of Commodities, or of their Price in Labour, and their Price in Money." A first thing to note is that he immediately distinguishes between real and nominal prices, stating that real prices are "prices in labor," as opposed to nominal prices which are "prices in money." The title itself is the first indication that for Smith labor is a kind of money.

Now, let us first see how Ricardo interpreted this chapter and then how we suggest reading it instead.

2. The Ricardian Smith

Ricardo begins the chapter on value in his *Principles* quoting Smith's distinction between value in use and value in exchange, and the opposite relationship between both. Ricardo ([1817] 2004, 11) concludes, following Smith, that "[u]tility then is not the measure of exchangeable value, although it is absolutely essential to it." After dismissing utility as a measure and source of value, Ricardo asserts that "commodities *derive* their exchangeable value from two sources: their scarcity, and from the quantity of labor required to *obtain* them" ([1817] 2004, 12, our emphasis). Ricardo tells us he is searching for the source of value in exchange ("derive their value") and that this value is linked to how we "obtain" commodities.

Let us focus on how people obtain commodities. In the opening paragraph of chapter V, Smith explains that in a society with a deep division of labor, people cannot produce most of what they need and must be able to command others to produce it for them. People command others' labor when they exchange goods. Even if it is possible to read Smith's explanation of people commanding each other's labor as the labor required to obtain the commodity, that is, the labor in commodity A is used to obtain the labor in commodity B when A is exchanged for B, Ricardo is using the word "obtain" to refer to the labor needed to produce A or B. Following his lead, it would be possible to associate Smith and Ricardo as advancing a cost-based explanation of value, where what matters are the costs needed to obtain a commodity. This might be the case if we omit the distinction Smith makes between real and natural price and concentrate only on the natural price and its component parts, wages, profits, and rent, as the price needed to bring a commodity to the market. It might be the case also if we omit how Smith defines value in exchange at the end of chapter IV, namely "the power of purchasing other goods" (WN I.iv.13).

Ricardo connects the definition of exchangeable value referring to the "labor required to obtain" goods to Smith's work quoting extensively from the WN on the real price of goods. He then proceeds to qualify this theory as "a doctrine of the utmost importance in political economy; for from no other source do so many errors, and so much difference of opinion in that science proceed, as from the vague idea which is attached to the word value" (Ricardo [1817] 2014, 13). As Smith had already warned us, value, is a complicated subject. And, after all the praise for Smith's work on this matter, Ricardo regrets that even Smith makes mistakes due to his incoherence in using different standard measures of value when he had already identified labor (*ibid.*, 13–4).

According to Ricardo, Smith did not accomplish his goal of explaining value in exchange, and the obscurity that remained upon the subject lead Ricardo himself to propose a labor theory of value to solve the issue. Even if Ricardo was aware of the shortcomings of this labor theory of value, he considered it a necessary steppingstone to build his own theory of political economy. The heterogeneity of labor made it clear that it could only be commensurable with a wage structure, but wages are not stable. Therefore, the difficulty of production or labor embodied would have to be close enough.

Another possible way to approach this obscurity is that labor is used in different ways, *i. e.*, that labor has different meanings. The most common understanding of labor is that it is a factor of production. This seems to be how Ricardo interprets labor. But Smith uses labor also for measurement, as a sort of price index (Hoover and Dowell 2001). So, Smith and Ricardo may be talking about different things when they talk about labor in chapter V of WN. They are addressing two different questions leading to two different answers. Whereas Ricardo is trying to answer the question about the source of value, which leads him to the answer of the difficulty of production and thus to labor bestowed, Smith is solving the problem of having a stable measure of value, leading him to the real price of goods. Ricardo is searching for the laws of distribution that constitute the core of the science of political economy. Smith has the mercantilist system and its confusion between wealth and gold and silver in mind (WN IV.i.34–5).

Notice, once again, the order of chapters in Book I, presented in the previous section; the question of commensurability, of the conditions needed to exchange, leads Smith to search for a better measure than gold and silver to understand commercial transactions. Ricardo focuses on production, and Smith on exchange when he explains real prices. After all, producing something is not the same as exchanging something. Different from Ricardo's interpretation, Smith states that labor *buys* things: "Labour was the first price, the original purchase-money that was paid for all things" (WN I.v.2). The value of wealth is that it enables the purchase of somebody else's labor, *saving* the buyer the need to produce something themselves.

The exchangers value a commodity because it allows them to obtain something else, to save themselves the toil and trouble of producing it by imposing it on other people (WN I.v.2). This is the sense of value *in exchange*, commodities do not have value in themselves; value *in exchange* is "the power of purchasing other goods" (WN I.iv.13), commodities allow us to obtain another commodity, and "[l]abour, therefore, is the real measure of the exchangeable value of all commodities" (WN I.v.1).

Even in the infamous presentation of the water-diamond paradox, Smith tells us that water has little value in exchange because "it will purchase us scarcely any thing, scarce any thing can be had in exchange for it" while "a very great quantity of other goods can be had in exchange for [diamonds]" (WN I.iv.13). Smith is interested in exchange, not in production here. In this sense, we agree with Meek (1956) and Henry (2000) when they consider that Smith's value theory is a theory of social interactions because the exchange of goods corresponds to the exchange of social activities (see also Hurtado and Paganelli 2023), and Smith's real price in terms of labor reflects his intention of explaining value in exchange, not in production. Smith is not asking about the nature of a good or the source of value when he presents the real price of goods; he is writing about the measure of value that allows exchange (Cartelier 1976). Ricardo seems unable to grasp this difference, to understand that his question about the source of value is different from Smith's question about the measure of value (Duboeuf 2001).

In fact, the "labor that measures is not […] the labor that produces" (Dellemotte 2019, 48, our translation). A meter, for example, measures the height of a teenager, but does not explain why a teenager grows taller over time. Smith looks at labor as a meter, Ricardo looks at labor as the source of what changes what is measured, that is Ricardo's interpretation focuses on the labor that produces, not the one that measures. When talking about the labor that measures, Smith explains real prices (WN I.v.7):

> Equal quantities of labor, at all times and places, may be said to be of equal value to the labourer. In his ordinary state of health, strength and spirits; in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it. […] *Labour alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price* (WN I.v.7, our emphasis).

In Ricardo's reading of Smith, to produce a good the laborer must always sacrifice the same portion of ease, liberty, and happiness, and this sacrifice materialized in a good gives the measure for comparing and exchanging goods. If we focus on the sacrifice materialized in the good, we find the foundation for Ricardo's interpretation: The real price of a good corresponds to the labor needed to produce it, *i. e.*, what its production costs.

However, if we concentrate on the last part of the quote, combined with the paragraph reproduced below, we find one of the keys of the alternative explanation we wish to provide here. Labor is the true "money" in Smith, as opposed to gold and silver. Money is a unit of account and a medium of exchange. And labor, for Smith, is a unit of account because it is the real price of every good. We measure in labor. Labor is also a medium of exchange: one's labor is what buys someone else's labor. We exchange labor for labor.

> [W]hat everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it, and who wants

to dispose of it or exchange it for something else, is the toil and trouble that it can save to himself, and which it can impose upon other people. *What is bought with money or with goods is purchased by labour as much as what we acquire by the toil and trouble of our own body* (WN I.V.2).

Labor is thus money. In the next sections, we analyze in more detail these two paragraphs, the monetary functions of labor, which we suggest Smith uses to provide an alternative to mercantilist ideas, and then the role of labor as a productive factor.

3. Labor: The True Measure of Value

In chapter IV, Smith told us that while gold and silver may be a convenient form of medium of exchange, they are not a reliable unit of account, which is the other function of money. Chapter V explains more in detail that either because of changes in the real quantity of precious metals or because of nominal changes in the denomination of coins, gold and silver generate an unstable and changing unit of account. But to measure the value of commodities, like to measure anything else, like weights or distances, one needs a stable unit of measurement. Since monetarized gold and silver prove not to be a stable unit of account, Smith sets out to find an alternative.

The first thing to note is that Smith is not inquiring about the source of value. A measure measures, it does not explain what the thing that is measured is or where it comes from. A meter or a foot is a measure of length, it is not a source of length, and it does not make lengths longer or shorter. As mentioned above, a meter measures the height of a teenager, and it is not meant to explain what the source of the teenager's increase in height is.

The second thing to note is that exchange is the way people provide for their needs and desires in a society with a deep division of labor, acquiring that which they do not have, in exchange for what they own. This idea predates the writing of WN as Smith expressed it even in his lectures: "For the very cause of the exchange must be that you need my goods more than I need them and that I need yours more than you do yourself; and if the bargain be managed with ordinary prudence it must be profitable on both" (LJ(A) vi.160). I value what you have, and you value what I have so we exchange. But how do we compare the value of what we want to exchange?

So, we approach chapter V: to measure otherwise incommensurable things, we need a common and stable unit of measurement, which Smith identifies with labor. To see this, remember the end of chapter IV, where we find the claim that exchange has "rules which men naturally observe" and "these rules determine what may be called the relative or exchangeable value of goods" (WN I.iv.12). Smith then opens chapter V, saying that the exchangeable value of something is "the toil and trouble of acquiring it" and the "toil and trouble which it can save" once the exchanger has acquired it. By buying something I save myself the "toil and trouble" of making it myself, and what you receive will allow you to save yourself the "toil and trouble" of doing something else which you will buy instead (WN I.v.2). What is most relevant here, in our view, is that the decision to exchange is based on comparing the "toil and trouble" we save through exchange. This means that our "toil and trouble", *i. e.*, labor, is the unit of measurement we use to estimate value in exchange.

Indeed, Smith claims that labor "*is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places*" (WN I.v.17, our emphasis). So, not only do we measure value with labor, but labor is the only accurate measurement of value, it is the only accurate unit of account. Labor is the only accurate money. Here Smith follows a long tradition of scholars, including Aristotle and Plato, who understand money as a unit of account needed to compare values. The idea of stability was so embedded in the understanding of money that the ancient and scholastic rejection of usury was based on it (Paganelli 2006; 2020). A unit of measure to function as such must be "sterile," meaning that it cannot grow over time. It must be constant, or it would lose its function. A money (a unit of account) that grows overtime, as in the case of usury, is thus nonsense (Pribram 1983).

The traditional challenge of a fixed unit of account to measure value generally presents itself when the unit of account is the same as the medium of exchange. When we count with the same medium with which we exchange, and what we use to exchange changes value, then the unit of account may become unstable. It was common practice in the past to detach the unit of account from the medium of exchange, so we encounter often enough so-called *imaginary money*, money that existed only to count while exchanging with a different medium. The imaginary money would preserve its fixity as a measure, while the medium of exchange could vary in value (see, *e.g.*, Spang 2017).

Smith is loud and clear about the fundamental importance of the stability of a unit of account when he states: "*a commodity which is itself continually varying in its own value, can never be an accurate measure of the value of other commodities*" (WN i.V.7, our emphasis), and we believe this is the core problem of chapter V. From here on, until the end of the chapter (and then again at the end of Book I, in the digression on the value of silver), Smith is showing on the one hand how unstable gold and silver are as a unit of account, and thus how poorly they fulfil this monetary function. On the other hand, he is showing how "*[l]abor alone [...] never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared*" (WN I.v.7, our emphasis).

Reading beyond the first couple of paragraphs of chapter V, we interpret Smith here as not at all interested in the source of value. Labor here is not a factor of production, let alone a source of value. Here Smith is interested in what to use to measure value. Value needs to be measured to exchange, and gold and silver do a poor job of measuring it. And for Smith, the "ultimate and real" measure of value is only labor. He uses the 32 paragraphs that follow (out of the 42 of the chapter) to demonstrate it.

Smith observes that if the medium of exchange is a precious metal like gold or silver, and if the value of gold or silver changes, then the unit of measurement of value changes as well. For him, all is more or less unproblematic when our monetary transactions are not that frequent and when the commodity used as a medium of exchange is relatively constant in value. But when most of our "necessities and conveniences" come from market transactions, as in a commercial society, and when the commodity we use as money varies in value, then measuring the value of things with it becomes a problem.

In paragraph 10, Smith reminds his readers that there are two sources of instability for the value of gold and silver: debasement of coins and variations in their quantity. Repeating his conclusions of chapter IV, Smith tells us again that one source of the instability of the value of gold and silver coins is that the quantity of gold and silver in coins that have the same denomination will change over time. The change is usually in one direction and one direction only: Princes like to decrease the quantity of precious metals in coins while leaving their denomination constant because they can more easily pay their debts, by defrauding their creditors. This is also why it is usually impossible to see an increase in the metal content of coins of the same denomination (WN I.v.11).

The other source of instability in the value of gold and silver coins is that gold and silver are commodities like any other. Their value depends on their demand and supply. With an expansion of commerce, the demand for gold and silver will increase, everything else the same, affecting their value. And if new mines are discovered, as they have been with the discovery of the Americas, the value of gold and silver will decrease, as it did in Europe (WN I.v.12). If one is paid a fixed amount of gold and silver over time, even if by weight and not with coins, one will receive less over time. The quantity of gold and silver will be the same, but what it can buy will be less. Smith will offer a detailed empirical analysis of these variations in the value of silver at the end of Book I (WN I.xi.e-p).

Smith is not alone in identifying the problem of a monetary standard that changes over time. The "price revolution," caused by the large influx of money from the discoveries of the mines of the new world, created an inflationary trend present in the centuries immediately before Smith. Several authors struggled to identify a stable unit of measure for value. Like any other unit of measure, whatever measures value must be stable and constant over time. If not, using a changeable unit of account would render any measurement useless.[5] They experienced the equivalent of measuring length with a unit that shrinks over time and differs from place to place: gold and silver, which were thought to be a unit of measurement of value unalterable across time and place, proved not to be. The value of gold and silver changed over the centuries. The silver lining of these changes is that the changes in the quantity of money, when money is gold and silver, are slow. This allows for money to be relatively stable in the short run, at least. But not in the long run (WN I.v.16).

Is there an alternative? Yes, but it is equally unsatisfying. Corn (grains) is the staple food in most of the world. While its nominal value may change, its real value does not, according to Smith (WN I.v.15). In fact, in Smith's account, when technology (manure) leads to increasing corn productivity, we decrease the amount of land dedicated to the production of corn to give space to forage, so that the value of corn stays the same. So, the value of corn is stable over time. And thus, corn is a better measure of value

[5] For later problems in finding a measure, such as a measure of the rate of exploitation see Kurz and Salvadori (2023).

than money, in the long run. But the value of corn is quite variable in the short run because it is affected by the variability of the seasons (WN I.v.16).

Smith thus concludes that, if gold and silver can measure value in the short run, but not in the long run, corn can measure value in the long run, but not in the short run. We are left with the following question: Is there something stable in value both in the short and the long run that can thus be used as a measure of value?

The search for a stable unit of account for both the short and long run leads to different options. For another Scotsman, John Law, for example, the stable unit of account to measure value was land. The amount of land is fixed; thus, its value is fixed, claimed Law. This was the logic behind the establishment of land banks: land is the real money (unit of account), but since we cannot use land as a medium of exchange, we use paper that represents land. Smith did not agree with Law and preferred going, partially, John Locke's and Ferdinando Galiani's way: the true measure of value in exchange is labor. For Smith, only labor is truly constant and the same across time and place.

But how can labor be the real, and thus stable, measure of value? Remember that Smith told us, at the beginning of chapter V, that equal quantities of labor, at all times and places, are of equal value to the laborer (WN I.v.7). This conclusion is not obvious, though. Yet, it makes sense if we work with the assumption of analytical egalitarianism that Smith is working with (Peart and Levy 2005). If we are naturally the same, as Smith told us in chapter II, then, he tells us in chapter V, "labour alone [...] never var[ies] in its own value," so that we "must always lay down the same portion of [our] ease, [our] liberty and [our] happiness" (WN I.v.7).

Smith is rigorous in maintaining this assumption of natural egalitarianism. Human beings are born with insignificant natural differences so much so that until the age of six or eight, when they start working, a parent or a playfellow cannot distinguish the talents of a child form the talents of another child (WN I.ii.4). Differences will eventually develop through specialization, but our core equality is natural and remains, even if "the vanity of the philosopher is willing to acknowledge scarce any resemblance" (WN I.ii.4). Smith asserts that "[t]he difference of natural talents in different men is, in reality, much less than we are aware of" (*ibid.*), and it is rather the result of their life experience. Work experience marks the difference; habits develop, and people develop different talents. Any differences among individuals, Smith explains through differences in nurture, not nature.

Note that Smith is not saying that one person's output of an hour's work should be valued the same as the output of a different person. Nor that time spent working should be the measure of value. The output of an hour of one's work may contain 10 years of training, and therefore more labor, than a month's worth of work in another activity. There are variations in hardship and ingenuity that will also make a difference, and we do not know how to measure them (WN I.v.4). What Smith is saying is that, given the assumption that we are by nature all equal, our dignity is equal, our worth is equal, and since "labor alone never var[ies] in its own value," our "toil and trouble" is equal, just like our ease, liberty, and happiness is equal.

It is Smith's analytical egalitarianism that makes labor a stable measure of value. Not the labor needed to produce but the labor that is exchanged. This is a huge difference from Ricardo and could be an explanation for Ricardo's dissatisfaction with Smith's explanation. Analytical egalitarianism implies making use of elements that are not strictly part of an economic explanation. As Aspromourgos puts it when Smith distinguishes between the nominal and the real price of goods, he "conflates two distinct notions. On the one hand, he proposes an empirical, observable measure of value [nominal price]. On the other hand, in justifying this measure he appeals also to a psychological category, the pains of labor understood as the ultimate human cost of a commodity: not a measure at all" (2009, 97). But the real price *is* a measure, it is the stable measure of value that relies on Smith's analytical egalitarianism, his belief that we are all essentially equal. "But it is not easy to find any accurate measure either of hardship or ingenuity. In exchanging indeed the different productions of different sorts of labour for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality which, though not exact, is sufficient for carrying on the business of common life" (WN I.v.4). And if it seems that labor varies in value because it can buy different amounts of goods at different times, we must remember that it is the value of those goods that changes, not the value of labor, Smith claims. The value of labor remains fixed. It is the value of everything else that changes instead (WN I.v.8).

Ideally, we should use labor to compare exchangeable value in different places and at different times, but Smith recognizes that, unfortunately, it is difficult to measure value in labor because it is an abstract process (WN I.v.5) that confuses people and because people are so accustomed to exchange with physical monetized gold and silver that they grow to think that gold and silver (or their equivalents) are the only monetary instrument possible. Smith is showing what is behind the appearances of daily life: We may think, incorrectly, that money (gold and silver, or their equivalent) matters because we exchange gold and silver for commodities, rather than directly exchanging labor for commodities. So, we think it is easier to estimate value with gold and silver than with labor; we become naturally accustomed to value in terms of gold and silver coins, which is also easier to grasp because it is a quantity of a concrete thing.

So, as a second-best, to compare value in different places and at different times, we should use corn. It is what Smith does at the end of chapter XI, in his "Digression on Silver" (Hoover and Dowell 2001; Paganelli 2022). But that again is too abstract and difficult because, again, we are too accustomed to using gold and silver to exchange. And that is a large part of the source of the general confusion about what money is. But Smith wants to make it clear that labor is the true money, not gold and silver; labor, let us insist, "*is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places*" (WN I.v.17, our emphasis).

4. Labor: A Measure of Opportunity Cost

Labor is the measure of value in exchange. It is the real price of goods, different from their nominal price in terms of gold or silver: "Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or silver, but by labour, that all the wealth of the world was originally purchased" (WN I.v.2). We already saw that we can interpret labor as "money," as a unit of account. Here Smith is telling us that we exchange labor for labor, so labor is also "money," a medium of exchange, as opposed to gold and silver, because we buy things with labor, not with gold and silver. Again, here labor is not seen as a factor of production. Here labor is what purchases, not what produces.

This implies we can read it in terms of how the real price of something is the toil and trouble of getting it; not in terms of cost of production but in terms of opportunity cost ("purchase-money"). The real value to a seller is the quantity of labor they can buy with what they receive, Smith tells us. And the value to a buyer is the toil and trouble that what they bought can save them (WN I.v.2). That is why labor is a price, the first and original purchase-money, that allows exchange.

It thus seems that Smith is excluding gold and silver and monetary or nominal prices from his explanation of exchange. It is not gold or silver that drives exchange but rather the toil and trouble that is saved. This is a powerful move that Smith makes against the mercantile system: the relevance that mercantilists give to precious metals disappears in Smith. It is labor instead that appears as the essential feature that enables an understanding of the economy. We will elaborate more below.

Now let's go to chapter VI in Book I, where Smith tells us about the component parts of the price of commodities. Here we need to pay particular attention because it is here that Smith uses labor simultaneously with two different meanings: as "money" and as a factor of production. Smith starts the chapter with labor as a factor of production. He tells us that in "the early and rude state of society" (WN I.vi.1), the price is composed only of labor because the rudimental division of labor does not necessarily need capital or land to produce the commodities exchanged. As the division of labor becomes more diffused, "stock has accumulated in the hands of particular persons, […] the land of any country has all become private property" (WN I.vi.5, 8), and production becomes more complex, labor is joint with capital and land in the production of exchangeable goods. Therefore, in a commercial society we have three factors of production, labor, capital, and land.

Smith then tells us that for people to bring a good to market, they need to make sure that what they receive can cover the cost of bringing the goods to market. If they do not receive enough to save themselves more toil and trouble than the toil and trouble they faced to bring goods to market, they will not bring their goods to market and find better alternative use of their resources. So, in chapter VII, Smith explains that receiving enough to save themselves the toil and trouble faced to bring goods to market is the natural price of a good: "the price of any commodity [that] is sufficient to pay the rent of land, the wages of labour, and the profits of stock employed in raising, preparing and bringing it to market" (WN I.vii.4). Price is opportunity cost.

In this, we agree with Aspromourgos, who identifies the natural price as an opportunity cost and states that "the very deepest meaning of price [is] that which is foregone for the sake of having some other thing" (2009, 73). However, unlike Aspromourgos, we see the difference between real and natural price because we differentiate between the two possible meanings of labor (unit of account and factor of production) and therefore we do not consider that labor commanded or the real price of a good rests upon a "fruitless idea of grounding cost in 'ultimate' psychological phenomena" (*ibid.*, 97).

Here is the difficulty: labor plays the double function of the measure of value in exchange (recall the real price is the value of a good expressed in labor – the "price in labor") as well as a factor of production. As a factor of production, labor accompanies capital and land, and the opportunity cost of their use needs to be covered by what the seller receives from the sale in the market, which should be equivalent to the natural price to cover that cost. For Smith, indeed, the natural price is what covers the opportunity cost of bringing goods to market, and that is measured by a "price in labor." If the natural price (reservation price, in today's language) is not paid, the commodity is not brought to the market, and the land, labor, and stock, will be used elsewhere.

Note again that gold and silver or their equivalents have not entered the picture, at least not in a positive sense. Gold and silver are irrelevant in the process of exchange, in the process of bringing goods to market. The real measure of value is labor so the real price is the "price in labor," not in gold or silver. The decision to bring goods to market depends on whether people can receive enough to save themselves more toil and trouble than the toil and trouble they faced to bring goods to market (natural price, or reservation price). Again, there is no gold or silver in this analysis.

When we read these chapters with Smith's declared attack against mercantilism in mind, we can more easily see that labor covers the double function of money (*e.g.*, measure of value) and of a factor of production, neither of which are necessarily related to the determination of value. Here labor is not a source, let alone the only source, of value. Labor measures value, and one needs to cover the opportunity cost of labor (like any other factor of production) to be able to bring goods to market to be exchanged. If labor is seen as a measure of value and the natural price as the reservation price to bring goods to market, it becomes much harder to find a labor theory of value in these chapters of WN.

5. Labor and Exchange: Labor as a Factor of Production

Smith puts a lot of weight on labor. Labor is present in the opening sentence of WN and in the first paragraphs of all chapters of the first two Books of WN (WN II.iv being the exception where Smith mentions "labourer" as opposed to labor itself. But all this does not imply that Smith considers labor a source of value. Even when labor is considered a factor of production, labor is not what gives something value. We suggest that Smith considers two kinds of labor: labor that measures value, and labor that produces wealth. But what gives value to something is not what Smith discusses in the chapters where Ricardo and his followers traditionally see the labor theory of value.

Above we saw how to interpret labor as a measurement of value. Here we see how to interpret labor as a factor of production of wealth. Measuring value and producing wealth do not necessarily have much in common with the creation of value. In the opening sentence of the *Introduction and Plan of the Work*, Smith declares that labor is "the fund" that "*supplies* […] the necessities and conveniences of life" (WN intro.1, our emphasis) consumed in a nation. Note the omission: It is labor that supplies what we need and want, not gold and silver, nor land. The basis of two dominant alternative theories of growth at the time is not mentioned, but it is implied. So, we can read Smith as implicitly telling us that he is providing an alternative way to understand wealth and wealth creation, a way based on labor, not on gold and silver or on land. Note also that labor *supplies* the necessities and conveniences of life. How much people value those necessities and conveniences is not in the picture here.

Immediately, Smith tells his reader that wealth is the ability to consume. In poor countries the people who do not produce do not consume; in rich countries, few people produce compared to the number of people who consume, and yet everybody can consume even more than in a poor country. The difference between a poor and a rich country depends on labor productivity, which in turn depends on the extent of the market and thus on specialization. Where do we derive the value of what we consume? This is not a question Smith seems to ask here. He is concerned about how we can increase what we consume and thus how we can facilitate exchange.

In a commercial society, which is, in a prosperous society, we have access to goods through exchange. Exchange marks interdependence between the participants in the market. As each exchanger addresses herself to the other's interest, she communicates with her exchange partner and tries to persuade her of accepting the exchange as they both will be better off by it. An exchange is a form of oratory in the sense that it uses persuasion showing how the tendency to truck, barter and exchange is "clearly founded" on the "naturall inclination every one has to persuade" (LJ(A) vi.56, 352).

The oratory of exchange is also an exercise in power. Wealth, therefore, writes Smith, is power: not political power like Hobbes thought, but power to consume (WN I.v.3). This power is exerted on the market, and it is exerted symmetrically between those who participate in the exchange. The market is therefore a device that allows coordination of interests, cooperation among people, and the satisfaction of needs and desires to the liking of humans. The butcher, the brewer, and the baker (WN I.ii.2) address themselves as interested individuals and talk about the advantages they derive from exchanging. This specifically human communication is based on property, leads to contract, and allows satisfying common and ever-growing human needs and desires.

An exchange is a contract between possessors of goods that agree to give up their property of something for the possession of something else. Exchange is not a favor, or charity, it is an agreement that benefits both parties (WN I.ii.2). And we arrive to exchange thanks to our natural propensity to truck, barter, and exchange and the inclination to persuade: they are the building blocks of the production and exchange of wealth. Labor appears the essential possibility of transforming and producing the goods and services humans need.

It is indeed this natural "propensity to truck, barter, and exchange one thing for another" (WN I.ii.1) that allows specializing and developing the talents that produce the goods that satisfy the "delicacey of human minds." "Such is the delicacey of man alone, that no object is produced to his liking. He finds that everything is in need of improvement. […] As the delicacey of man's body requires much greater provision than that of any other animal, the same or rather the much greater delicacey of his mind requires a still greater provision, to which all the different arts (are) subservient." (LJ(B) 207–208).

Humans can specialize because they can find in the market that which they do not produce, this "common stock, where every man may purchase whatever part of the produce of other men's talents he has occasion for" (WN I.ii.5). Only among humans, says Smith, does this difference of talents profit the whole community (WN i.ii.5). Each one can specialize and, in the aggregate, increase the productive powers of labor to produce a greater variety of goods that changes, accommodates, and offers the diversity that people demand. For Smith, there is a human ability to transform the world and accommodate our environment to satisfy needs and desires. This extension of the market thus promotes specialization, which leads to a network of interdependence among people who can all be considered "in some measure a merchant" (WN I.iv.1).

So, for Smith, wealth is produced with labor (in combination with land and capital) and increasing labor productivity produces more wealth. More goods are available on the market as specialization makes labor more productive. The economy is more effective at producing goods and keeps producing them as long as they are sold at a price that covers the costs of production. Labor as a factor of production, not gold and silver, produces wealth, which is our ability to consume. Where the value of what we consume comes from is irrelevant at this point. We only need a common measure, a unit of account to exchange. The real price expresses the value in exchange. It is their "price in labor" that, given Smiths assumption of analytical equality among humans, compares the toil and trouble of buyers and sellers and thus gives them the reservation price for bringing goods to market.

6. Concluding Remarks

Labor plays a key role in Smith's attack against the mercantile system. Precious metals lose any significant role for understanding exchange or the creation of wealth. Gold and silver are the usual medium of exchange, the one we use in the ordinary business of life, and the one we are accustomed to, even if what we are really trading is labor for labor.

Labor for Smith is not just a factor of production but also a measure of value. Given Smith's assumption of analytical egalitarianism, "labor alone, therefore, never varying its own value, is alone the ultimate and real standard by which the value of all other commodities can at all times and places be estimated and compared" (WN I.v.7). Using labor as a measurement of exchangeable value, Smith aims at overcoming the problem of measuring value with an unstable unit of account such as metallic money. Labor thus also measures the reservation price of bringing a good to market.

Understanding labor as money, as an abstract alternative to gold and silver, in its function of a unit of account and with its role of measuring the opportunity cost of bringing goods to markets, is what allows us to say that the subsequent interpretations of Smith as a proto-labor theorist of value are interpretations based more on Ricardo's reading of Smith, than on Smith himself.

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