Ricardo's Doctrine of Capital*

Isaak Rubin 1936-7

David Ricardo added nothing to the theory of capital which Adam Smith set forth before him. Ricardo displayed less interest in the nature of capital than Smith precisely because, in his day, capitalist relations in Britain were more developed than in the mid-18 century, when Smith's views took shape. The latter lived in the transitional period of the manufactory mode of production. The relative novelty of capitalist relations could not but attract the thinker's attention. As a keen observer he quickly grasped the peculiarities of concrete economic phenomena. They prompted Smith to go into the characteristic features of capital as distinguished from the consumption fund and to look into the various forms of capital, such as productive, commodity, and money capital.

In Ricardo's day, economic relations rested on the generally accepted and seemingly unshakable foundation of capital, which was taken for granted. In his study Smith quoted vivid facts and features to illustrate the economy of the craftsman, peasant, and small trader. In contrast to this Ricardo described the conditions against the monotonous, perhaps colourless, background of capital. The dull atmosphere of capital was undetectably omnipresent, but never purposefully analyzed. He did not pose the general question: what is capital? Nor did he display an interest in the various forms capital assumed in the process of circulation.

Ricardo concentrated on the study of productive capital. He thus avoided the mistakes Smith made, because the latter confused productive capital with commodity capital. But Ricardo's ideas about capital are far more dull than Smith's. They actually boil down to an enumeration of items making up capital.

Since Ricardo focussed his attention on productive capital he naturally referred to means of production as an embodiment of capital. But the list of the means of production is not always the same: it is sometimes shorter and at other times longer. Ricardo faced the question of the nature of capital already in the first chapter of his work, where he argued against Smith's thesis about accumulated capital rendering the law of labour value ineffective. Though this thesis was erroneous, Smith vaguely sensed that with the emergence of capital, the law of labour value manifested itself in a different, more complicated, form. Ricardo wholly overlooked this aspect of the problem, which was not clear to Smith. Ricardo simplified the polemic by substituting the question about accumulation of the means of production for the question about accumulation of capital. This enabled Ricardo axiomatically to prove that the expansion of the means of production did not render the law of labour value ineffective. The cost of commodities was determined by labour, the latter meaning "Not only the labour applied immediately to commodities affect their value, but the labour also which is bestowed on the implements, tools, and buildings, with which such labour is assisted"[1], or putting it differently, "necessary to the formation of the capital, by the aid of which it is produced".[2]

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Note by L. L. Vasina, Ya. G. Rokityanskii: "Below follows a short manuscript on two student's copy-books, which the scholar wrote during his exile in Aktyubinsk and which his sister, her daughter Mariya and her son Valentin have saved for us. The manuscript is entitled Ricardo's Doctrine on Capital. It was written during 1936-1937 as a sort of essay in which the scholar compares the views of two outstanding English economists – D. Ricardo and A. Smith – on the problem of capital. It looks like Rubin was writing this manuscript for his own satisfaction; he needed a safety valve, a reassurance that he was capable of doing research in exile. As for its scientific level, the manuscripts literary merits and the depth of its analysis matches the scholar's works of the 1920s. It will undoubtedly draw the attention of economists and historians as the final accord of Rubin's creative activity."

I shall not deal with how and to what degree, Ricardo solved Smith's problem or how and to what degree, he "evaded" it. What I am interested in is that, in Ricardo's work, capital assumes above all the form of production implements. Later he also included in capital raw materials, although in most cases he tended to overlook them. On the next page, Ricardo put cotton for stockings in the same categorical groups as the machines for their production. Thus, he extended the concept of capital. It comprised all the "dead" means of production contributing to the process of production together with direct, live, labour.

In the above reflections on capital Ricardo proceeded from an analysis of the elements constituting the process of production out of its capitalist context. Had he steadfastly maintained the stand that he would not have included the means of subsistence in capital, because they are not an element of the process of production. But he knew that the capitalist (and not without reason) regarded wages as a part of his capital. Wages being means of subsistence expressed in the form of money, Ricardo, naturally, arrived at the conclusion of Quesnay-Smith to the effect that capital also included the means of the workmen's subsistence. He drew this conclusion, though it contradicted his initial viewpoint. "Capital is that part of the wealth of a country which is employed in production, and consists of food, clothing, tools, raw materials1, machinery, &c. necessary to give effect to labour."[3]

Thus, Ricardo initially maintained that capital comprised above all the implements of production, but then extended the idea to cover the means of production in general. Finally, he said that capital embraced everything that was necessary for the process of production, including the means of subsistence for the workers.

Ricardo's train of thought revealed that he was "behind" Smith in the examination of capital. He tended to ignore wholly the question of the nature of capital. Ricardo's attention was fixed on the components or material elements of capital and he showed no signs of understanding or even vaguely sensing the peculiar nature of capital spent on the hiring of labour. Just like Quesnay and Smith he maintained that it was the means of subsistence for workers, and not live labour power participating in the production process, that were the material embodiment of variable capital. I have pointed out above that this view fully agrees with Quesnay's theory. The latter believed that the value created by a worker's labour is a modified value of the means of subsistence the worker consumed. This does not apply to Smith or Ricardo. By placing capital inputs on the hiring of labour and in purchasing cotton, Smith committed an offence against his own theory of labour value and also his theory about human labour being the creator of new value. Ricardo committed an even greater offence, because he formulated the theory of labour value in far more explicit terms than Smith.

Compare Ricardo's opening thesis with his final conclusion. In the beginning, he estimated that the cost of a commodity was determined not only by the labour put directly into its production, but also by the labour needed to build up the capital which helped produce the commodity. Ricardo, therefore, assumed that "Economy in the use of labour never fails to reduce the relative value of a commodity, whether the saving be in the labour necessary to the manufacture of the commodity itself, or in that necessary to the formation of the capital, by the aid of which it is produced."[4] In other words, according to Ricardo, any change in the capital cost of material elements would cause a corresponding change in the cost of the product manufactured with the help of this capital.

Had Ricardo drawn further conclusions from this thesis he would have given thought to whether the means of subsistence for workers could be regarded as a material element of capital or a component thereof. An answer in the affirmative would have meant that a cut in the cost of the means of subsistence (or in the "value of labour," to use the term of Ricardo and other pre-Marxian economists) entailed a corresponding drop in the cost of the product turned out by the worker. But in his polemic with Smith, Ricardo attacked this thesis in the first chapter of his book. He would not have avoided difficulties even if he had substituted the worker's "labour" (as an embodiment of capital) for the means of his subsistence. It should be mentioned that, in keeping with Ricardo's theory, a change in the "cost" of labour did not work a corresponding change in the cost of the product manufactured with the help of this labour. Thus, had Ricardo thought out every detail of the question he would have faced the following alternative: he would have had to admit that either the means of subsistence for workers (and, hence, the "labour" whose cost they embodied) did not form, as distinguished from raw materials and machines, a part of the capital (because a change in their cost did not correspondingly affect the cost of the product of labour), or that they did (though a wholly different part from that of raw materials and machines, because a change in their cost would not cause a corresponding change in the cost of the product).

If Ricardo had formulated the latter conclusion he would have effectively advanced the theory of capital. It would have prompted economists to recognize the fundamental difference between the two components of capital. A distinguishing feature of some elements of capital, such as raw materials and machines, is consistent in that a change in their cost correspondingly affects the cost of the product. This occurs because their cost is simply transferred to that of the manufactured product. In contrast to this, a change in the cost of other capital elements (such as "labour" or the means of subsistence for workers, as pre-Marxian economists maintained) does not entail a corresponding change in the cost of the product. Therefore, this is not a simple transfer of an existing cost, but a process in which labour creates a new value.

I do not mean to say that Ricardo nearly discovered the fundamental difference between fixed and variable capital (or, perhaps, acquired a vague understanding thereof). Ricardo did not go that far. If he had drawn the right conclusions from his thesis about changes in the cost of "labour" (or of means of subsistence for workers) not affecting corresponding changes in the cost of the product, he could have made more progress in gaining a correct understanding of the matter. Just like Smith's system, Ricardo's theory of labour value lacks adequate logical connection with his theory of capital. The reason for this is of a dual character. First, neither Smith nor Ricardo completed the theory of labour value. Nor did they remove elements from it pertaining to the vulgar theory of production costs. In the beginning, Ricardo sharply opposed direct, live, labour to "dead" means of production. In contrast to this, later he grouped "labour" costs with other production costs, namely inputs in cotton and machines. Second, he drew far-reaching conclusions from the theory of labour value, which were essential for the establishment of the class nature of capital. Though the class position of Smith and Ricardo was progressive at the time, it was nevertheless limited to the outlook of a bourgeois society. Marx alone was able to solve the mystery of capital and surplus value.

Thus, Ricardo's achievements, which earned him immortality in the development of the theory of value, did not help him in his analysis of capital. His viewpoint on capital remained superficial, it was more superficial and narrower than Smith's. The latter posed a general question on the nature of capital in an attempt to identify its key feature - its ability to create profit. Ricardo did not do so, though this did not mean that he was not aware of the ability of capital to make profit. Displaying an interest in various forms of capital Smith was a victim of confusion. Ricardo managed to achieve greater clarity because he limited his research to productive capital, ignoring commodity and monetary capital. Finally, according to Ricardo, the various components of productive capital are the material elements of the process of production (including the means of subsistence for workers). Though Ricardo's definitions of capital vary, they all boil down to lists of components of capital. The "material" viewpoint in Ricardo's works was stronger than in Smith's. This applied not only to the general definition of capital, but also to the theory of its division into fixed and circulating capital.

Smith devoted a separate chapter to division of capital into fixed and circulating capital. Ricardo mentioned it only incidentally in connection with so-called "exceptions" to the law of labour value. According to Ricardo, these cases were exceptions, because if two products with identical labour inputs appeared on the market at different time intervals, the cost of one would differ from that of the other. The author quoted examples where two capitals made up of circulating (or variable) capital alone were characterized by different turnover periods. However, in his opinion, the turnover period mainly depended on the form of the capital - on whether it was fixed or circulating capital. The bigger the fixed capital the longer the turnover period.

But what conditioned the difference in the rate of turnover of both forms of capital? As Ricardo put it, the rate of turnover depended upon the nature of the material elements which made up the forms of capital. Fixed capital is "capital that is invested in tools, machinery and buildings"[5], which wear out slowly, after a long period of time. In contrast to this, circulating capital is defined as "capital that is to support labour"[6] and is subject to quick wear and is consumed in a short period of time.

This definition shows that Ricardo confused circulating capital with variable capital advanced for labour payment. How did he prove that circulating (or rather, variable capital) was quickly consumed? Just like Smith, he regarded the means of subsistence for the workers, their food, clothing, etc., and not their labour power, as the material clement of circulating capital. He, therefore, referred to the fact that the workers quickly consumed their food and clothing "commodities more perishable than buildings and machinery"[7].

It follows that the difference between fixed and circulating capital is determined by the difference in the nature of their material elements and in the rate of their wear and tear. All things in this world are transient, though the rate of their consumption or wear and tear is different. Ricardo wrote that "The food and clothing consumed by the labourer, the buildings in which he works, the implements with which his labour is assisted, are all of a perishable nature. There is however a vast difference in the time for which these different capitals will endure: a steam-engine will last longer than a ship, a ship than the clothing of the labourer, and the clothing of the labourer longer than the food which he consumes. According as capital is rapidly perishable, and requires to be frequently reproduced, or is of slow consumption, it is classed under the heads of circulating, or of fixed capital"[8]. At this point Ricardo made an important comment whose meaning was clarified in the following: "A division not essential, and in which the line of demarcation cannot be accurately drawn."[9]

It may seem that material differences between the elements of capital pushed the economic differences between fixed and circulating capital into the background. In Ricardo's case this assumption would be an exaggeration. Although he was mainly concerned with the rate of physical depreciation of machines and clothes and the rate of consumption of food, he was eager to establish the factors governing the turnover rate of fixed and circulating capital. This is evident through Ricardo's arguments about exceptions to the law of labour value, which rest on the time the capital is advanced for, i.e., on the turnover period of capital.

Ricardo could not have had a clear idea about the turnover period of capital, because he had not formed an accurate concept of capital circulation. Though he had only a vague idea concerning the turnover period of capital, he had it in mind, when he quoted the case of the baker as an example. The baker's capital was invested in wheat for making bread, he said, would be returned in a week's time for reinvestment in wheat or some other undertaking. It is true that Ricardo often confused the turnover period of capital with the period of physical depreciation of its elements. It is precisely this that ruined his basically unsound theory of fixed and circulating capital.

I would like to avoid oversimplification of Ricardo's idea and to extract the kernel from the husk of this ambiguous formula. In this case the essence of the matter will boil down to two fundamental theses: first, the economic difference between fixed and circulating capital consists of the different periods for which they are advanced - to use a later term, unknown to Ricardo, the difference consists of different turnover periods; second, the turnover rate of both capitals wholly depends on the "service life" of their material elements.

Outwardly, the first thesis may appear to be more sound. Obviously, the money the owner of a cotton spinning mill puts into cotton returns in a short time, i.e., assures a quick turnover. As compared to the money invested in buildings and machines It appears natural to search for the distinctions between both forms of capital in the rate of turnover. Proceeding from the rate of turnover (circulation), the economists divide capital into circulating capital, which is characterized by a quick rate and fixed capital, which is characterized by a slow rate of turnover.

However, you can see that the quick or slow rates of turnover are relative categories which do not provide an infallible criterion for distinguishing between fixed and circulating capitals. The turnover periods of capital vary sharply depending on the economic sector, the type of enterprise in a sector, and the form (part) of capital of a given enterprise. There can be an infinite number of capital inputs characterized by different turnover periods, but it is impossible to divide them into two big groups (i.e., fixed capital and circulating capital) by drawing a line of demarcation between them.

Ricardo faced this difficulty too. He could not close his eyes to the fact that "the circulating capital may circulate, or be returned to its employer, in very unequal times"[10]. The baker would get back within a week the money he put into wheat for making bread and the farmer would get back the money he put into wheat seeds only in a year's time. If in both cases these inputs are regarded as circulating capital, Ricardo's viewpoint is untenable. Thus, he wrote: "the wheat bought by a farmer to sow is comparatively a fixed capital to the wheat purchased by a baker to make into loaves."[11] But Ricardo did not place the fanner's inputs in seeds in the category of fixed capital as Smith had done. What Ricardo wanted to say was that, although the farmer's inputs were circulating capital, they could be regarded as fixed capital, if compared to the baker's inputs, which returned very quickly. At the same time Ricardo maintained that inputs in fixed capital, characterized by a slow rate of turnover, could be regarded as circulating capital when compared with inputs taking much more time to return.

If the inputs in seeds can be regarded as fixed capital and inputs in a ship as circulating capital, it is impossible to divide capital into two big groups (fixed and circulating capitals) by merely drawing a line of demarcation between them. In the aforementioned comment Ricardo arrived at this conclusion against his own will. He pointed out that it was "A division not essential, and in which the line of demarcation cannot be accurately drawn."[12] Ricardo would not have formed this purely negative opinion if he had not divided capital on the basis of turnover time, but on the basis of the mode of circulation and reproduction of capital value, or rather, the method of transfer thereof to the product of labour. The inputs in wheat both of the baker and farmer are circulating capital because, in both cases, the cost of the wheat is wholly transferred to the product during the period of production, regardless of whether it is a week or a year. The inputs in a ship or a steam engine, regardless of their service life, are inputs in fixed capital, because the cost of the ship and steam engine are transferred to the product only bit by bit, gradually, in the course of many periods of production (or, in the ship's case, periods of transportation). The method of transfer of capital value (cost) to the product is the line of demarcation Ricardo failed to find. The reason behind this was that Ricardo did not have a clear idea about the circulation or turnover period of capital, which included the time of production and the time of circulation.

Having adopted the time for which the capital is advanced as the criterion for the division of capital, Ricardo actually returned to the ideas of the Physiocrats. The latter used to divide advances into annual and initial (i.e., funds advanced for a period often years). In the case of the Physiocrats this division was justified, because in farming the period of production is determined by natural conditions. In industry the period of production and, therefore, the period of capital turnover, are different in each sector. Perhaps, Smith vaguely felt this. That was why he did not apply to industry the same principle of division of capital inputs into short-term and long-term inputs that the Physiocrats introduced. As distinguished from the Physiocrats Smith paid serious attention not only to productive, but also to commodity capital. He erroneously tried to fit both these forms of capital into the two element scheme of fixed-circulating capital, which is applicable only to productive capital. Disagreeing with the viewpoint of the Physiocrats Smith formulated a fundamentally unsound conclusion about fixed capital taking no part in the process of circulation. Disagreeing with Smith Ricardo disregarded commodity capital, but divided productive capital into two parts on the basis of the time for which each was advanced. In industry, the periods for which advances are made vary widely depending on the sector and forms (parts) of capital. Therefore, as distinguished from the principle of the Physiocrats, Ricardo's division was of a very indefinite character. He finally admitted that he could not draw a line of demarcation between fixed and circulating capital.

In the theory of division of capital Ricardo was a step behind the Physiocrats, but he was ahead of Smith because he adopted the pattern of the Physiocrats. Smith's outlook was broader. He covered a wide range of forms of capital and his work is richer in content. But his pattern is not theoretically consistent. It is jumbled, contradictory, and erroneous mainly because Smith confused circulating capital with commodity capital. It did not lend itself to correction. Ricardo's, or rather the Physiocrats' division of capital, separated into short- and long-term inputs, despite its errors, had a rational kernel and lent itself to correction. Indeed, in the same sector, fixed capital is advanced for a longer period in comparison to circulating capital, but this is due to the fact that circulating capital is consumed in a single production cycle, and fixed capital in the course of several or many cycles. Advancement of different forms (parts) of the same capital for a short or a long term is a secondary, derivative, sign which reflects the distinction between complete consumption of certain elements of capital (such as objects of labour, labour power, and auxiliary materials) during a given production period (cycle) and gradual consumption of other elements (implements of labour) in the course of several periods (cycles).

If the Physiocrats were dimly aware of this Ricardo was not. He tried to find the answer in the wrong place. He thought that the (short or long) period of capital investment depended on the difference in the length of the "service life" of the elements forming the capital. Instead of trying to establish the role the various material elements of capital (implements of labour, raw materials, labour power, etc.) played in the process of production, he arranged them according to the length of their service life (steam engine, ship, clothing, food, etc.). He studied the steam engine not as an implement of production which performed a definite function in the course of many production periods (cycles), but as a piece of equipment made out of very durable materials and, therefore, endowed with a long service life. It was durable materials that placed the steam engine into the category of fixed capital, whereas the "short life" of foodstuffs and clothing placed them in the category of circulating capital.

I made it clear above that the length of service life (durability) is a relative quality which does not provide a reliable criterion for the division of capital into two big groups (fixed and circulating capital). Another erroneous thesis of Ricardo's theory is his statement that the period for which capital is advanced depends on the physical durability of its elements. He was right in saying that an implement of labour can perform its function in the course of many production periods (cycles) only if it is made out of durable material. "The durability of its material is therefore a condition of its function as an instrument of labour, and consequently the material basis of the mode of circulation which renders it fixed capital."[13] This, however, does not mean that the durability of the metal in a steam engine imparts to it the character of fixed capital. In a metal factory an equally strong metal will form an element of circulating capital, if it is an object of labour or a raw material. "Consequently it is not because of the material, physical nature, nor the relatively great or small speed with which it wears out that a metal is put now in the category of fixed, now in that of circulating capital. This distinction is rather due to the role played by it in the process of production, being a subject of labour in one case and an instrument of labour in the other."[14]

Ricardo's treatment of circulating capital was also unsound. First he substituted circulating capital for remuneration of labour, i.e., variable capital. Then he substituted the workers food and items of clothing for variable capital. Ricardo could only advance his arguments about the physical durability of materials after this. According to him, capital for remuneration of labour was circulating capital only because foodstuffs were perishable and clothes did not last long. But the worker spends his wages not only on food and clothing, but also on furniture, metal beds, metal utensils and other household items. Some of these workers are not inferior in strength to machines. Then why did Ricardo include wages in circulating capital? He could not uphold his own view on this matter. Earlier he had in mind the time the various elements of capital served the capitalist. But then, in an attempt to prove that wages were a part of circulating capital Ricardo said that food and clothing for the worker were "short-lived" items. Was the capitalist concerned about this? Did it make any difference to the capitalist whether the worker spent the wages on durables or non-durables? Does the category of capital (fixed and circulating) depend on what the workers wish to spend their wages on? These questions clearly show that, from the standpoint of Ricardo's theory, it is impossible to explain why the capital for remuneration of labour should be regarded as circulating capital.

Footnotes

[1] David Ricardo *On the Principles of Political Economy and Taxation*, Works (Cambridge University Press, 1983), Chapter I.iii, p22.

[2] Ibid, Chapter I.iii, p26.

[3] Ibid, Chapter V, p95

[4] Ibid, Chapter I.iii, p26.

[5] Ibid, Chapter I.iv, p30.

[6] Ibid.

[7] Ibid, Chapter I.iv, p31.

[8] Ibid.

[9] Ibid, p31n.

[10] Ibid, p30.

[11] Ibid.

[12] Ibid, p31n.

[13] Karl Marx, *Capital* II (International Publishers, New York, 1972) , Chapter XI, p221.

[14] Ibid, p220.