SAMUEL BAILEY AND THE QUESTION OF HIS "INFLUENCE": A SKEPTICAL VIEW

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English, Irish and Subversives Among the Dismal Scientists

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I INTRODUCTION: SELIGMAN'S READING OF BAILEY AND ITS RECEPTION

Professor Edwin Seligman hoped by his study of "neglected" British economists "to call attention to some of the British writers who undertook to discuss economic theory during the two decades following the appearance of Ricardo's *Principles*. It will perhaps surprise many to find in this literature so much that foreshadows the most recent contributions to economic doctrine" (1903: 336). Samuel Bailey's *Critical Dissertation on Value* (1825) – written anonymously in reply to the formulation of Ricardian theory in De Quincey's *Templars' Dialogue* (1824) shows the author, Seligman maintained, to be one of the "more acute critic[s] of Ricardo" (352), a "keen and fertile thinker," having in mind "[t]he opposition to the labour theory of value, the emphasis put on time as an element in value, the broadening of the rent concept, the criticism of the statement that rent does not enter into price, and the importance assigned to productivity in affecting value – all these constitute doctrines of importance in the recent phases of the science" (355; also 534). For convenience, the full case is recorded in Appendix A. Seligman makes no mention of Bailey's varieties of imperfect competition and barriers to entry that (we shall see) impressed other commentators.

Note should be taken of Seligman's brief remark in concluding his summary of Bailey's achievements: "That they should have been enunciated in 1825 and then seemingly forgotten is eloquent testimony to the power which is sometimes exerted by a few great names in silencing for a time all criticisms, however sound they may be" (355). Seligman's contribution ends on this theme. His answer to the question "How does it happen that all these authors have been so largely overlooked and neglected?" is that "[t]heir views were not in accord with those of the dominant school" (534); that "[t]he reputation of the great names was such that any deviation from accepted doctrine was branded as unorthodox" (535).[1]

Lionel Robbins, with an eye to the significance of *relative* valuation, took for granted the standard reason for the treatment of Bailey's contribution; for apart from Bailey's neglect of "*prospective* value relations through time" – on which see below, section VI, …. -- "in every other respect his position is unassailable…. It was one of the few real injuries done to the progress of Economic Science by the solidarity of the English Classics that, presumably because of its attacks on Ricardo and Malthus, Bailey's work was allowed to drop into neglect" (1935: 60n).

J.A. Schumpeter refers to Seligman's "justly famous article … for which all students of the history of economics have every reason to feel lasting gratitude" (1954: 464). As for Bailey: "In 1825, Bailey launched his attack [on Ricardo's system] that should have been decisive on the merits of the case" (1954: 478); and again: "Bailey attacked the Ricardo-[James] Mill-McCulloch analysis on a broad front and with complete success. His *Dissertation*, which said, as far as fundamentals are concerned, practically all that can be said, must rank among the masterpieces of criticism in our field, and it should suffice to secure to its author a place in or near the front rank in the history of scientific economics" (486).[2] More specifically: "The peak performance was Bailey's…. He showed up the weaknesses of Ricardo's analytic structure forcefully, in particular, the futility of Ricardo's method of eliminating natural agents from the value problem, the arbitrariness involved in calling quantity of labor 'the sole determining principle of value,' the defects of the concept of real value and of the Ricardian theory of profit, and so on" (599). And Bailey was the first to turn the analogy between payments for the services of superior land and of superior work "into an objection to the West-Ricardo theoretical pattern" (679).

Cotterill's comment that there are "some Ricardians still remaining" (1831: 8), led Schumpeter to conclude that "the decay of the Ricardian School must have become patent" soon after 1826 (478) But he hedged his account with multifold qualifications. Thus, the influence of Bailey "was much greater than appears on the surface"; "though but few contemporaries did justice to him, it became clear *in time* that he had turned the tide and dealt a fatal blow," with specific mention made of Cotterill's contribution, which "should not be forgotten because of its defense of (most of) Bailey's tenets" (599; emphasis added). Similarly, Bailey's critique did not "pass unnoticed," for "several writers, Read among them, acknowledged indebtedness to him and followed his lead and it is safe to presume that his influence extended beyond the range of explicit recognition" (486-7). And though a poll of writers on value from 1826 to 1845 would produce a considerable majority for Bailey," nevertheless there occurred no "spectacular victory" (487), Bailey's "*defeat*" (our emphasis) accounted for on several grounds.[3] First, his challenge was "premature" and failed to show how Ricardo's system might be replaced: "Bailey's criticism was indeed constructive and did suggest by implication how the system he attacked could have been replaced by a more satisfactory one; but he did not try to do so, and those who followed in his wake and tried were no match for the shadow of Ricardo. They no doubt undermined his system and thus helped toward J. S. Mill's transformation of it, but they did so by a slow process of attrition rather than by spectacular victory." Thus Bailey and those who followed his example helped "undermine" the system "but they did so by a slow process of attrition." And that Bailey's attack was not decisive, Schumpeter opined in line with Seligman, could be partly explained by "the henchmen who continued to stand by their guns and to teach exploded doctrine as if nothing had happened" (478). J.S. Mill is portrayed as one of the worst offenders, insofar as he "emphasized his early Ricardianism throughout and neither realized himself nor made it clear to his readers how far he had actually drifted away from it by the time he wrote his *Principles*." The Seligman-Schumpeter position had, of course, been suggested earlier by Jevons: "There were Economists, such as Malthus and Senior, who had a far better comprehension of the true doctrines (though not free from the Ricardian errors), but they were driven out of the field by the unity and influence of the Ricardo-Mill school" (1879: li-

lii).

R.M. Rauner, for his part, starts his specialist study of Bailey on value by observing that "the many things that Bailey said so well so much earlier had to be re-discovered all over again. Professor Seligman, in his memorable article, was amongst the first to start the re-discovery" (1961: 1; also Rauner 1987: 174). And similarly D.P. O'Brien gives Seligman an excellent press (1988: 180-2, 186-8), and takes on board much of his position on Bailey:

> Although Mixter had published earlier on Bailey [Mixter 1898],[4] it was really Seligman who drew attention to Bailey's *Dissertation* [1903, pp. 352-355]. Noting Bailey's critiques of Ricardo's verbal muddle, of the concept of absolute value, of the use of the cost of production theory of value, of the equation of cost of production with labor cost, of the idea of homogeneity of labor input, and of the Ricardian inverse relationship of wages and profits without reference to labor productivity, as well as Bailey's introduction of time preference, and his generalization of the rent concept, Seligman really set the tone for most of the later discussions (198).

O'Brien himself emphasizes Bailey's "excellent understanding of Ricardo (by no means a common achievement), his sustained criticism of the invariable measure, and his discussion of Ricardo's inverse relationship of wages and profits," and points out that "[o]n the more positive side he is generally credited (correctly in the opinion of this writer) with generalization of the rent concept, and with pointing out that degrees of fertility are not necessary for the emergence of rent while, on the other hand, and in practice, nonhomogeneity characterized labor as well as land …. He is also credited with establishing (by introspection …) the existence of positive time preference."

* * *

Seligman, we have noted, represented his neglected British economists in general as "foreshadow[ing] the most recent contributions to economic doctrine," and wrote of Bailey that his contributions "constitute doctrines of importance in the recent phases of the science." These remarks suggest that Bailey's work was part of an alternative paradigm to Ricardo's. He is, however, much more cautious in summarizing his position regarding Bailey (and Cotterill) at the outset of Part II of his paper: "In the controversy that arose during the early twenties on the subject of value we found that important criticisms of the Ricardian theory were advanced by Bailey and Cotterill, and that the foundation stones for an entirely different theory was laid by Lloyd, the originator of the marginal utility doctrine of value" (1903: 511).[5] And similarly at the close of his paper, the focus is on the contributions by Lloyd, Read and Longfield, "above all the theory of marginal utility as the basis of value, and the marginal productivity theories of wages and interest …" (534), with Bailey assigned to the second rank of dissenters, making a contribution of a critical rather than positive nature.

Marian Bowley, writing a generation after Seligman, objected that if by "classical economics" specifically *Ricardian* doctrine was intended, – as was common in "semi-popular" discussion – then "neither Senior, Longfield, W.F. Lloyd, nor any of the other economists to whom Professor Seligman drew attention, nor the French economists, can be included under it" (1937: 16). She regretted that "economists who criticized Ricardo, as for example Senior and Bailey, have been considered simply as critics who perhaps added some improvements by the way but who did not differ from him on fundamental doctrine," her own view being that "the developments of the theory of value between 1823 and 1862," revealed "two different and more or less contemporary schools even in England" – the Ricardian and the utility schools (16-17). However, when it comes to evidence regarding Bailey, she offered little justification for designating him a "utility" theorist, focusing rather on his rejection of any sort of "intrinsic" value, and his emphasis on the exceptions to a cost theory which fall under the rubric of cases of "monopoly" (93). Much later, Bowley altered her position on the broader issue, arguing that in fact “[n]o revolutionary significance” was attached by contributors in the British literature to the law of diminishing marginal utility, or the concept of intensity of demand, or utility measurement, since these all stemmed from the *Wealth of Nations*” (1972:27). What, however, was indeed “*inherently revolutionary*” was “[t]he analysis of the limited validity of the pure cost of production theory of natural price by Bailey, Senior and Cournot in terms of market structures,” for it “contained elements which led straight to the rejection of that convenient and important simplification” (28; emphasis added).

Mark Blaug too maintained that “Bailey’s criticism of Ricardo contained the germs of a far-reaching reconstruction of basic economic concepts” (1958: 58) – though he adds that only Senior realized it .[6] Rauner is yet more definite in his estimate of a *paradigmatic* breakthrough on Bailey’s part: “… like Jevons, Bailey understood that Ricardo’s determination to use “absolute” or “real” cost concepts was bound to bring him to untruths. On his essentially relativist foundation Bailey appreciated that a valid theory of value proceeded from more complex causes than simple labour quantity. He understood that a theory of value depended on 'mental states,” on “estimations,” on “scarcity,” and on “time” and so on (1961: 94). Again: “Enough had been said of Bailey’s approach to prove that the only reduction worth making was to ‘mental states’ not ‘original factors.’ The significance of this should not be underestimated, however, for it is only from the ‘mental states’ standpoint that a complete theory of alternative costs can emerge – which is to say, it is only from such a standpoint that utility can properly be related to cost of production and cost of production, in its turn, freed from some association with the negative concept of physical real cost of pain. The virtues of Bailey’s position in all of this can hardly be lost” (101). Similarly, Rauner’s contribution to the *New Palgrave* points to a paradigmatic breakthrough, albeit an “incomplete” one:

> From a larger perspective, by stressing relative value exclusively, Bailey pulled economic analysis back from the Smith-Ricardo stream that sought a principal cause of value to explain the production and distribution of material wealth among the labouring, rentier and capitalist classes. In Bailey's argument relative values – prices – vary for all kinds of reasons affecting demand ("esteem") and supply (production under constant or increasing cost, supply-limiting) conditions. Hence, his view involves no notion of long-run growth, tendencies toward equilibrium, stationary states or other systemic visions. Everything is relative; individual economic welfare is expressed period-by-period solely in terms of relative values (1987: 174).

Essentially, "Bailey's work freed analysis from the need to link production and distribution to socioeconomic class relationships. It pointed instead towards relationships between individual needs and perceptions, and the material goods that can satisfy them."

D.P. O'Brien opens his discussion of "Classical Reassessments" dealing with the contributions by Longfield, James Mill, Senior, Bailey, Torrens and Say by declaring that these writers "were men of independent mind and independent spirit. While they could hardly fail to be affected by Ricardo in some way, they looked for solutions to economic problems without being unduly trammeled by the question of whether or not they were keeping within some kind of Ricardian orthodoxy – indeed one of them (Mill) helped to *create* it" (1988: 179-80). And at the close:

> It should be clear that any account of classical economics which treats the writers considered here as offering only minor variations on Ricardo and/or Smith is highly misleading and that many of the classical economists apart from Ricardo and Smith were men of outstanding capabilities who solved problems left unsolved by more famous names. In particular it is now clear to most economists (or rather, to most

> historians of economic thought) that the idea of classical economics as the pale reflection of Ricardo is a gross distortion. In fact, despite the grandiose English and the patronizing tone, Schumpeter's judgment seems frequently to have been vindicated, and the process of reappraisal which he helped to initiate has resulted in a fundamental change of perspective on classical economics (212).

I am not concerned now with O'Brien's writers apart from Bailey – except to remark that placing James Mill in the same cage as the others listed is asking for trouble – but when we look more closely at what O'Brien has to say of Bailey specifically we face a problem. Bailey's independence from Ricardo is enthusiastically supported by reference to Rauner's 1956 doctoral dissertation according to which "Bailey placed the rationale of economic activity in mental phenomena [Rauner 1956: iii] … reject[ing] the physical material conceptions of classical economics … his use of introspection as empiricism [being] entirely consistent with this [504-6]" (1988: 200). Bailey, in brief, "saw economics as a science of mind [496-526] – it was not concerned with technology. His basic philosophical position is extraordinarily 'Austrian' and is much more post-1870 than the recently received interpretation would suggest, in this respect at least."[7] Yet for all that we also find, in the same contribution O'Brien *playing down* Bailey's originality in economics – with good reason as I shall presently show – insofar as he firmly denies that Bailey was "part of a separate tradition of economic thought, contemporary with mainstream classical economics, [for] it now seems clear that Bailey was in the main classical tradition insofar as his positive value theory was concerned and that he did not provide material either for a separate tradition or for a revolution in value theory" (199).[8] For one thing "he had no proper demand curve." What has happened to Bailey's "independent spirit"? Moreover, while O'Brien pays tribute to Blaug 1958 in making his case for a reappraisal (179), when we follow up the reference we find a position implying that the dissenters, Bailey included, were indeed "unduly trammeled" by "some kind of Ricardian orthodoxy": "The weight of 'the Ricardian errors' was so strong that even the critics and outspoken opponents of Ricardo came under their spell. Consequently the original contributions of men like Malthus, Bailey, Scrope, Jones, Longfield, and Senior took the form of isolated theoretical innovations, carrying no practical import, which were either brushed aside or assimilated without disturbing the mainstream of Ricardian economics. *The short-comings of anti-Ricardian economics – its eclectic character, its failure to carry through – far more than the dogmatism of Ricardo's disciples was the factor responsible for its lack of success*" (Blaug 1958: 227; emphasis added). But Blaug too is difficult to pin down. To "assimilate" and to "brush aside" are vastly different reactions, while he also writes of the "votaries" of Ricardo – James Mill, McCulloch, a *Westminster Reviewer* of 1826, De Quincey – as "weather[ing] Bailey's criticism with admirable equanimity" (56), which certainly implies a refusal to do Bailey proper justice, that is a *dogmatic* response.

* * *

Much of the literature discussed above takes for granted that Bailey's criticisms of Ricardo were technically *valid*. Some accounts, including that by Seligman himself, caution against going too far in representing Bailey as leader of, or even participant in, a *paradigmatic* transformation of doctrine, a caution downplayed by Schumpeter and Rauner. In any event, the participants in this debate fail to take proper account of the advice offered by Jacob Viner that any investigation of the extent and nature of the early dissension requires that attention be accorded to the replies of the Ricardians to their critics, for "some of the criticisms against the Ricardian analysis were either based on misinterpretations of it or would have been accepted by the Ricardians…" (1958: 419-20). Only thus is it possible to evaluate properly the extent of adhesion or breakaway from Ricardo on the part of the dissenters. Needless to say, to do justice to this procedure requires precision and accuracy in the perception of "Ricardianism" – we must at all costs avoid the meaningless "some kind of Ricardian orthodoxy" encountered above.

In Section II, we shall follow Viner's recommendations with respect to Bailey, having in mind a notion of Ricardian classicism giving pride of place to the inverse wage-profit relation with its focus on "proportional" wages and its derivation in terms of an invariable money measure of value, and its application to the problem of growth subject to land scarcity entailing a fall in the *commodity* wage and also – because of the rise in money or proportional wages – a simultaneous fall in the profit rate (see Hollander 1977, 1979, 2001).[9] It emerges that in many cases Bailey's criticisms constitute misunderstandings of Ricardo's position, while others would have been considered wholly acceptable by Ricardo.

A second set of issues with which we shall be concerned relates to Bailey's "influence" on other "dissenters" (Cotterill, Read, Senior, Lloyd and Torrens), on the "Ricardians" (James Mill, McCulloch and J.S. Mill), and on Malthus. Here we have in mind Seligman's representation of Bailey as an "acute critic" of Ricardo on value who "exerted considerable influence at the time" (1903: 352), and Schumpeter's assertion that Bailey's influence "was much greater than appears on the surface (1954: 599, cited above, p…). We have too an evaluation by Blaug to the effect that "[t]he impact of Bailey's attack upon contemporary thinking was profound, judging by the number of references to it in an age not given to crediting sources" (1958: 55-6). Now an "impact" might not be of a positive order, but Blaug's reference in this context to a statement by Malthus regarding "the impression which [the *Critical Dissertation*] is understood to have made among considerable political economists" (1986 [1827] *8*: 60), implies that a positive influence is intended.[10] Our analysis finds little to justify these evaluations of the extent and character of Bailey's influence.

II BAILEY AS RICARDIAN *MALGRÉ LUI*

Our analysis in this section in effect dots the i's and crosses the t's of the position stated all too briefly by Elie Halévy writing shortly after Seligman but to precisely the opposite effect:

> In 1825, in *A Critical Dissertation on the Nature, Measures and Causes of Value* [1825: xi-xii] an economist philosopher, Samuel Bailey, showed that the quantity of labour can be considered neither as the measure nor as the cause of value. As a matter of fact, all the elements of his criticism are borrowed from Ricardo's book. He established the fact that the quantity of labour is not the cause of value in cases of monopoly, and that the value of labour is itself a monopoly value; that it is not the cause of value in cases in which a certain commodity can be produced in indefinite quantities, but with a constantly increasing cost of production; that value cannot be explained by the quantity of labour, because labour is not a homogeneous quantity, and can be of various qualities. Ricardo had already said all this: Bailey confined himself to insisting on the importance of the cases which Ricardo persisted in treating as exceptional. On another point he made an innovation: he emphasized the analogy between the benefit of rent and "the extraordinary remuneration which an artisan of more than common dexterity obtains beyond the wages given to workmen of ordinary skill": the owner of fertile soil and the possessor of unusual skill secure a monopoly price, a monopoly which is restricted in the first case by the existence of lands of inferior quality, and in the second case by the existence of inferior degrees of dexterity [1825: 196-7]. But the origin even of this idea that value contains differential elements is to be found in Ricardo (Halévy 1955 [1904]: 353-4).[11]

The sense and validity of the term "borrowed" in Halévy's statement will be taken up in a concluding section.

We commence by taking note of James Mill's observation in his "On the Nature, Measures, and Causes of Value" for the *Westminster Review* of 1826[12] that Ricardo would not have objected to the principal theme of the first chapter of the *Critical Dissertation* relating to the nature of value: "This chapter is logomachy, simply and purely. It makes profession, or rather ostentation and parade, of being a controversy with Mr. Ricardo. But it contains not an assertion, who which, as far as *ideas* politico-economical are concerned, Mr. Ricardo would not have assented; it contains, not indeed, as far as such ideas are concerned, an assertion which is not implied in the propositions which Mr. Ricardo has put forth. It is a criticism on some of Mr. Ricardo's forms of expression …" (Mill 1826b: 157). Schumpeter considered Mill's contribution to be "pathetically inadequate" (1954: 599),[13] and O'Brien sees it as a reflection of Mill's "fury" (1988: 200). But that Mill represented Ricardo's viewpoint is apparent from the latter's reaction to the anonymous *Verbal Disputes* of 1821, which in its essentials is so similar to the *Critical Dissertation* that Bailey feared he might be accused of plagiarism (see Appendix B). Writing to Trower in August 1821 Ricardo observed:

> With respect to our difference of opinion on the subject of exchangeable value it is more an apparent difference than a real one. In speaking of exchangeable value you have not any idea of real value in your mind – I invariably have. Your criticisms on passages in my book are, I have little doubt, correct, because they are also the criticism of others on the same passages. A pamphlet has appeared "On Certain Verbal Disputes in Polit. Econ." where the same ground of objection is taken as you take; the fault lies not in the doctrine itself, but in my faulty manner of explaining it

(1951-73 *9*: 38).

As for the *justification* for the Ricardian reaction – though not perhaps Mill's tone – that is clear enough as I shall now show.[14]

We set out by focusing on Bailey's charge that Ricardo's notion of an invariable standard is self-contradictory: "It would be an absurdity to suppose, that the value of A to B could alter, and not the value of B to A; that A could rise in value to B, and B remain stationary in value to A …" (1825: 5; also 16, 103).[15] It is clear that this objection follows directly from Bailey's definition of value as *exchange value,* that his case is purely terminological:[16]

> The specific error of Mr. Ricardo on the subject of invariable value consists … in supposing, that if the causes of value affecting one commodity remained the same, the value of that commodity could not vary, overlooking the circumstance, that value denotes a relation between two objects, which must necessarily alter with an alteration in the causes affecting either of them. He incessantly identifies constancy in the quantity of producing labour with constancy of value. Hence he maintains, that if we could find any commodity invariable in the circumstances of its production, it would be in the first place invariable in value; and, 2ndly, it would indicate, or would enable us to ascertain, the variations in value of other commodities (121).

In point of fact, a commodity produced with a constant labour input, Bailey observed, "would enable us to ascertain, not the fluctuations in value between two or more commodities (for these are facts to be gathered from appropriate evidence), but the fluctuations in the quantity of labour which produced them" (124). Alternatively expressed, we would be enabled to establish in which commodity "those [observed] fluctuations had originated" (121). *Now this renders precisely the purpose of Ricardo's measure*[17]– Ricardo's famous justification for setting aside changes in the wage structure, as irrelevant for his particular investigation, make this very clear (1951-73 *1*: 20-1) – *and the critique amounts to no more than an unwillingness to use the term "value" in the Ricardian fashion*.

A further passage is similarly revealing:

> I have already had occasion to remark, that since value is a relation between two objects, it requires no proof that it cannot arise from causes affecting only one of the objects, but from two causes, or two sets of causes respectively operating upon the objects between which the relation exists. It A is equal in value to B, this must be owing, not only to causes operating on A, but also to causes operating on B. In investigating the sources of value, however, it will be necessary to treat of these causes separately; and it may not be useless to recollect, that although value must in every instance arise from the combination of two sets of causes, *any alteration, any rise or fall of value, may proceed from only one*. The value of A and B is the effect of causes acting on both, *but a change in their mutual value may arise from causes acting on either*: as the distance of two objects is to be referred to the circumstances which have fixed both of them in their particular situation, while an alteration of the distance between them might originate in circumstances acting on one alone (183-4; emphasis added).

By admitting so much Bailey once again was rendering wholly irrelevant his charge of an "inherent contradiction" in the very notion of an invariable standard. Equally striking, while Sowell (1970: 404) attributes to Bailey rejection of "the idea of an aggregate value of national output" as "meaningless," Bailey in fact recognized that "the truth" of Ricardo's proposition whereby if technical change permits a general doubling of output from a given labour force, the higher product would remain of the same value, each individual unit falling fifty percent, "entirely depends on the medium in which we estimate value" (1825: 154).

And yet a further, indeed a determining, indication of Bailey's undermining of his own critique is the following footnote which frankly allows that the Ricardian programme seeking the source of variation in observed exchange rates was a "*rational*, and might prove a *useful* inquiry":

> The same remark will apply to economists in general. Their real object in seeking for a measure of value (however little they may be aware of it) is to determine in which commodities any changes of value have originated, and not to ascertain the extent of these changes, which, as I have repeatedly stated, are matters of record and evidence, and a knowledge of which is in reality pre-supposed in any application of what they call a measure. It is not, therefore, a measure of value which they are in pursuit of, but a commodity which would indicate the sources of variation. Whether there is any one object which would do this better than another, would at all events be a *rational*, and might prove a *useful* inquiry (127n; emphasis added).

Again, Bailey – near the outset of his book – refers to "[t]he *truth* intended to be conveyed by saying that B remains of the same value is, that the cause of the altered relation between A and B is in the former, and not in the latter; and to determine where the change originated is in fact the whole object of those who endeavour to show what commodities have remained stationary in value and what have varied" (12; emphasis added. Also p. 6.) Why then does he immediately revert to the irrelevant charge that invariability of "value" understood as *exchange* value – rather than *real* value – is "absurd" (18)? It is also extremely difficult to appreciate Bailey's charge (in the extracted passage above) that the Ricardians were unaware of what they were about. We need but let Ricardo speak for himself: "When commodities varied in relative value, it would be desirable to have the means of ascertaining which of them fell and which rose in real value, and this could be effected only by comparing them one after another with some invariable standard measure of value, which should itself be subject to none of the fluctuations to which other commodities are exposed" (1951-73 *1*: 43).

Bailey thus concedes the game, if rather ungraciously: "Many of the strictures, which have been made on Mr. Ricardo's writings … would be in some degree obviated if two things were conceded, namely, if we assumed that he was constantly speaking of real value, and if we were to grant him the *absurdity* which we have shown this expression to imply; or, in other words, if we were to consider it as importing cost of production, without relation to the power of commanding in exchange" (253; emphasis added). Bailey must have forgotten here that he had himself represented Ricardo's concern to be precisely the isolation of the source of an observed change in exchange rates.[18] Apparently, he feared that he had allowed too much: "But then, although some inconsistencies would by this means be obviated or explained away, we should obtain in their place a number of other equally irreconcilable, and also a series of unmeaning and identical propositions. For instance, the proposition that a million of men always produced the same value, but not the same riches, would be reduced to this, that what a million of men produced always cost the labour of a million men: $a = a$." Needless to say, an identity is not an error.

That Bailey conceded the validity of the Ricardian exercise, only to proceed as if the concession had never been made by concentrating solely on use of the term "value" as synonymous with exchange value rather than allowing for the alternative sense of real costs, is apparent also when he cites Ricardo's own belief regarding "the impossibility of finding any commodity of invariable value" (19), yet insists on a fundamental difference between himself and Ricardo. For Ricardo, Bailey points out, invariability could not be satisfied since "no commodity could be found, which is not itself exposed to the same causes of fluctuation as all other commodities," whereas for Bailey himself, even "if all commodities were produced under exactly the same circumstances, as for instance, by labour alone" – the very simplest case – "any commodity, which always required the same quantity of labour, could not be invariable in value, while every other commodity underwent alteration: [Ricardo] asserts, on the other hand, that such a commodity would be invariable …" (20-1; also 119). As he expressed the matter in his *Letter to a Political Economist* – responding to the *Westminster Review* strictures on the *Critical Dissertation* – he had never said of Ricardo, and various others including Lauderdale and Torrens, that "they deny the impossibility of an invariable measure;" rather, "they maintain … invariableness to be necessary to constitute a measure of value, while I contend that invariableness has nothing to do with it" (1826: 14-15). Bailey can only be understood if one takes his usage of the term "value" as indicating *exchange*, rather than *real*, value and understand its "measurement" correspondingly.[19]

Bailey thus recognized the "truth" and "usefulness" of Ricardo's quest for a commodity that is "invariable" in its own costs, as a means to recognize the source of a change in observed exchange rates. Strikingly, his own *Money and its Vicissitudes of Value* (1837) follows precisely along these Ricardian lines by distinguishing between, and evaluating the effects of, a change in the exchange rate between money and commodities – the "value of money" – originating in circumstances affecting money alone, and circumstances affecting commodities alone such as general productivity increase not pertinent to the precious metals, i.e., "[s]upposing money to be unaffected by any variations originating on its own side, [in which case] the prices of other commodities must necessarily fall as the facility of supplying such commodities increases" (1837: 17).[20] He only insists – in line with *A Critical Dissertation* and *A Letter to a Political Economist* – that "[t]his steadiness of value, so desirable in money as a medial commodity and a commodity of contract, is quite inessential to it in its capacity of the measure of value" (9). A rose by any other name …!

* * *

Not only is it the case, as several commentators have remarked, that Bailey himself presented no alternative model, but of this he was well aware – "the science cannot yet be exhibited as a regular and perfect structure" (1825: xii) – although he did express a methodological preference for greater "generality" than characterized the Ricardians. For all that, he frankly admitted in the concluding chapter "On the Causes of Value" that Ricardo himself was not a guilty party, while even his objection to the "followers" is somewhat watered down:

> Mr. Ricardo, indeed, explicitly allows the influence of other causes [than labour embodiment], such as time, differences in the proportion of fixed and circulating capital, and inequalities in the durability of capital, by which he admits the value of commodities is liable to be affected. Notwithstanding these modifications, however, his followers continue to lay down the position of quantity of labour being the sole cause of value in the most precise and positive terms; not that they deny the exceptions, but they appear to lose sight of their existence, and frequently fall into language incompatible with their admission; while they altogether overlook the source of value to be found in partial or incomplete monopolies, and the intermixture in production of commodities which are indebted for their value to different causes (230-1).[21]

These allowances regarding Ricardo come as a surprise since Bailey had earlier noted that "[t]he only place in Mr. Ricardo's work, where I have been able to find the expression of the general rule properly qualified is the Index. He there says, 'the quantity of labour requisite to obtain commodities, the *principal* source of their exchangeable value" (213-14n).[22] In any event, he also recognized elsewhere Ricardo's position that a wage variation will influence relative prices in the event of differing factor proportions (217); similarly with respect to "the effect of time on value," he allows that "[t]he influence of this cause is admitted by Mr.

Ricardo, but Mr. Mill contends, that time can do nothing." The book closes in surprisingly mild terms; and in the passage in question Bailey candidly admits that his purpose had not been to decide whether or not Ricardo had "really enriched" political economy, a matter he leaves open – confirming that he himself was well aware that he had not developed an alternative model:

> If Mr. Ricardo, as his admirers allege, has really enriched the science of political economy with any new and important truths (a point which this is not the place to decide), we may safely pronounce that they are not inferences from the doctrine, that the quantity of labour employed in the production of commodities is the sole determining principle of their value. It may be affirmed, without any hazard of error, that there is not one of them, whatever they may be, which would not equally flow from the more accurate proposition, that it is the principal cause (232).

A word regarding Bailey's complaint in the penultimate extract that Ricardo's followers – if not Ricardo himself – had neglected the implications for pricing of "partial" or "incomplete" monopolies, the early nineteenth-century term for less than infinitely-elastic supply, covering the standard increasing-cost case characterizing agriculture. Thus though Ricardo formally classified commodities according to the "source" of their exchangeable value, namely "scarcity" and quantity of labour, focusing on the latter because quantitatively the most significant (citing Ricardo 1951-73 *1*: ….),

> [i]nstead of confining himself to these commodities, he enters into the consideration of the value of labour, of corn, of gold, and of other articles, in the production of which competition certainly does not operate without restraint; but which he is obliged to bring under that head, from the imperfect classification with which he sets out. According to his own division, the value of these things should be determined by

> the quantity of labour necessary to produce them: but of none of them can this be asserted; for the value of labour can in no sense be said to be determined by the quantity of labour necessary to produce it: the value of corn in general is determined, on his own principles, by the quantity of labour required to raise corn on the worst soils in cultivation, and not by the quantity of its own producing labour; and in the same way the value of gold itself depends, not on the labour necessary to produce very individual portion of it, but on the labour necessary to extract it from the least fertile mines that are worked (228-9).

Here we have Bailey giving a lesson on the relevance of *marginal* labour cost, but turning it against Ricardo to argue that the price of an average corn unit is not determined by "the quantity of its own producing labour," as if Ricardo had not spent all his time elaborating precisely this in his formulations. Bailey's summary in this context is further evidence of his regrettable preoccupation with classification rather than substance:

> Mr. Ricardo did not, evidently, allow sufficient importance to that source of value which he calls scarcity; not did he consistently bear in mind, that it was the very same principle which enabled the owner of land, or of mines, of more than common fertility, to raise the value of their articles beyond what would afford the customary profit. Instead of scarcity, or, in other words, monopoly, or protection from competition, being an unimportant source of value, and the commodities which owe their value to it forming a very small part of the mass of commodities daily exchanged in the market, we have seen that it is a most extensive source of value, and that the value of many of the most important articles of interchange must be referred to this as its origin (229).

There are two observations that need to be made at this point regarding substance rather than classification and language. First, we confirm Bailey's own adherence to the *priority of supply conditions* from his discussion of the emergence of *rent*, particularly his position that rent is not a "cause" of value. Consider the following passage which expounds the standard Ricardian position regarding pricing in the case of increasing costs:

> The value of that corn which is produced on lands paying rent, is not, it is acknowledged, in proportion either to the capital or to the labour actually expended in its production. It must be owing, therefore, to some other cause; and the only other cause is the state of the supply and demand, or the competition of the purchasers. This competition might raise to price to an indefinite height, if it were not for the existence of other lands, which although they could produce corn only at a greater cost, would be brought into cultivation as soon as the price had risen sufficiently high to pay the ordinary profits on the capital required. It is, therefore, the possibility of producing corn, or the actual production of it, at a greater cost, which forms the limit to its value. But although this is the limit beyond which its value cannot rise, it cannot be said to be the cause of its value. It is the cause of its being no higher, not the cause of its being high (194-5).

Bailey here even commends Ricardo's form of expression, which is quite unusual: "We accordingly find that the expression used by Mr. Ricardo on this subject is, not that the value of corn is *caused*, but that it is *regulated* by the cost of production on the least fertile lands. The owners of land of superior fertility enjoy a monopoly, which, however, does not enable them to raise their commodity indefinitely, according to the varying wants and caprices of mankind, but which is bounded by the existence of inferior soils." (195) He goes on to point out that perceiving rent as a "monopoly" return or an "extraordinary profit which is obtained by the possession of an instrument of production, protected up to a certain point from competition," it followed that such "extraordinary profit might exist, although the land in cultivation were all of the same quality; nay, must exist before inferior land was cultivated; for it could be only in consequence of extraordinary gains obtained by the monopolizers of the best land, that capital and labour would be expended on soils of a subordinate order. Rent, therefore, might exist, while all the land under cultivation was of equal fertility" (196).

We come now to our second point, that – *pace* O'Brien (above, p. …) or Rauner (1961: 109) or Sowell (1970: 405) – not one word of this is in any way novel, Ricardo having shown in detail that differential rent is but a special case of a more general phenomenon – scarcity value. Thus in his discussion of early settlements, he observed: "no one would pay for the use of land, when there was an abundant quantity not yet appropriated, and therefore, at the disposal of whosoever might choose to cultivate it" (1951-73 *1*: 69). Conversely, "[if] air, water, the elasticity of steam; and the pressure of the atmosphere, were of various qualities; if they could be appropriated, and each quality existed only in moderate abundance, they, as well as the land, would afford a rent, as the successive qualities were brought into use" (75). The extension of this statement runs explicitly in terms of demand-and-supply (and refers to the authority of J.B. Say): "On the common principles of supply and demand, no rent could be paid for such land, for the reasons stated why nothing is given for the use of air and water, or for any other of the gifts of nature which exist in boundless quantity . . . ; as the supply is boundless, they bear no price. If all land had the same properties, if it were unlimited in quantity and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation" (69-70). Indeed, Ricardo takes Smith to task for focusing on the *physical* contribution of the land factor and neglecting the dependency of rental *value* on scarcity: "Dr. Smith does not reflect that rent is the effect of high price . . . . It is . . . from the price at which the produce is sold, that rent is derived; and this price is got not because nature assists in the production, but because it is the price which suits the consumption to the supply" (77n). There is too Ricardo's position that rent may be generated even in the absence of differentials, for it is diminishing returns at the *intensive* margin which constitutes a more general case (71, 72). And finally, there is recognition of rent as a pure demand-determined surplus, generated even on marginal units of output, in the (unlikely) case of zero-elastic supply, referred to by Ricardo as a case of "monopoly" price (250-1).[23] Bailey had added nothing.

We return to Bailey on pricing, and a concession – confirming all that we have said above – that "[t]here is at the bottom, little actual difference among economists as to [the] causes [of value], but they do not agree either in their methods of explanation, or in the language they employ" (199). At this point, however, Bailey adds a proposition that has struck some readers – including Seligman (see above, p…) – as particularly significant: "It has been shown [1-2, 180, 183] that the immediate causes of value are the considerations which act on *the minds of human beings,* and that the circumstances, which form or furnish those considerations, must be the causes into which the economist has to inquire. Our present object, therefore, is to find those circumstances which act upon the mind with certainty and precision, in the interchange of commodities of the class under our notice" (emphasis added). We are thus cautioned by Bailey himself to keep the "philosophical" background so enthusiastically championed by O'Brien (above, …), in proper perspective.[24] As Rauner put the matter: "It will be recalled [1961: 5-6] that Bailey had asserted that value, in the ultimate sense, appeared to be the esteem in which an object was held. Since it was impossible to give this ultimate esteem any accurate, quantitative expression, Bailey had put in its place the concept of relative esteem and its manifestation in relative or exchange value" (1961: 120). The point to be emphasized is that Bailey goes on to focus on *costs of production as the main consideration* in the case of commodities "which can be increased by industry, and on which competition acts without restraint" (1825: 198): "A moment's reflection on the subject will suffice to discover, that the principal of these circumstances must be the cost of production. No man, who bestows his time and attention on the production of a commodity, will continue to produce it for the purpose of exchanging it against another commodity, which he knows costs less to the producer than his own: and, on the other hand, every producer will be willing to sell as large a quantity of his commodity as he can dispose of at the same price as his fellow producers' (199-200). This sort of proposition is wholly orthodox, though it must immediately be noted that Bailey adheres to the Torrens position (Torrens 1821: vi-vii; also 1818: 336) when he writes that "[i]n a civilized country … the mass of commodities are determined in value by the capital expended upon them" (1825: 206).[25] Even terminology suggestive of "states of mind" appears in Ricardo's discussion of the tendency to cost price: "It is then the desire, which every capitalist has, of directing his funds from a less to a more profitable employment, that prevents the market price of commodities from continuing for any length of time either much above, or much below their natural price" (1951-73 *1*: 91).

Similarly orthodox is Bailey's further contention that "if we do not aim at undue generalization, but are content with a simple statement of facts, the value of objects, in the production of which competition operates without restraint, may be correctly stated to arise principally from the cost of production; and that *cost of production may be either labour or capital, or both*" (1825: 205; emphasis added). We need but recall Ricardo's clarification in his third edition that even to maintain a labour theory of value is not to deny the presence of costs other than labour costs:

> It is necessary for me also to remark, that I have not said, because one commodity has so much labour bestowed upon it as will cost 1000*l*. and another so much as will cost 2000*l*. that therefore one would be of the value of 1000*l*. and the other of the value of 2000*l*. but I have said that their value will be to each other as two to one, and that in

> those proportions they will be exchanged. It is of no importance to the truth of this doctrine, whether one of these commodities sells for 1,100*l*. and the other for 2,2000*l*., or one for 1,500*l*. and the other for 3000*l*.; into that question I do not at present enquire; I affirm only, that their relative values will be governed by the relative quantities of labour bestowed on their production (1951-73 *1*: 46-7).

And finally, Bailey's references to non-monetary characteristics, such as "[t]he discredit, the danger, the disagreeableness of any method of employing capital," (in addition to time of investment) to illustrate influences on value acting via "the minds of men" (206-7) obviously rehearses a celebrated Smithian theme which was standard canonical fare.

There is, of course, the question of the empirical significance of cases "on which competition acts without constraint." But if to this category is added increasing-cost cases, including agriculture, the range is greatly extended, so that the main claim – by Senior as well as Bailey – that Ricardo had distorted reality by reliance on the constant-cost cases is much diluted.[26]

* * *

The terminological penchant of Bailey's book is also evident from comments upon Ricardo's identification of a change in the "value" of wages – *wages in terms of the invariable measure* – with a change in the proportion of wages in aggregate output, that is the representation of labour as rising or falling in value "only when a larger or smaller proportion of the commodity produced goes to the labourer" (1825: 56). For Bailey restricted the term "value" to refer to *exchange-value*, the "value of labour" indicating therefore *commodity wages* (46); on the other hand, he perceives profits as a rate of return on the "capital employed" such capital entailing *wage payments*, i.e., his notion of profits runs in proportionate terms: "a rise of profits and a rise of labour are essentially distinct in their nature, the one signifying an increase of proportion, the other an increase in the quantity which a definite portion of labour will command" (64); again: "it is an increase in the *portion* of the product assigned to the labourer which constitutes a rise in the value of his labour; but it is an increase in the *proportion* assigned to the capitalist which constitutes a rise in his profits" (70). Not surprisingly, on this usage only in the case of *constant output* must an increase in the commodity wages paid to a given work force involve a decline in the profit share (Bailey's rate of profit); whereas allowing for increase in output (and neglecting rent) wages and profits may both vary in the same direction (70, 57). As Bailey pointed out in a Note his contention was simply "that in cases of improved productive power, the product might be so divided, that the rate of profits [identified with the profit share in output] should be increased while the value of labour [the commodity wage] was enhanced" (241).

Nothing in all this conflicts in any way with Ricardian analysis. To the contrary, a feature of Ricardo's growth model is the increase of the commodity wage with no reduction, even conceivably an increase, in the profit rate, in early stages before manifestations of land scarcity, i.e. when production is subject to *increasing* returns:

> In different stages of society, the accumulation of capital, or of the means of employing labour, is more or less rapid, and must in all cases depend on the productive powers of labour. The productive powers of labour are generally greatest when there is an abundance of fertile land: at such periods accumulation is often so rapid, that labourers cannot be supplied with the same rapidity as capital.
>
> It has been calculated, that under favourable circumstances population may be doubled in twenty-five years; but under the same favourable circumstances, the whole capital of a country might possibly be doubled in a shorter period. In that case, wages during the whole period would have a tendency to rise, because the demand for labour

would increase still faster than the supply (1951-73 *1*: 98).[27]

And, by the same token, in the course of subsequent expansion subject to *declining* marginal productivity, both the wage and profit rates tend downward simultaneously (101; see Hollander 1987:194-202, 2001, 2007).

Bailey's criticisms of the inverse profit-wage relation were evidently not directed at Ricardo's position as *Ricardo understood it*, namely as a theorem entailing the "real" wage or cost of producing the wage measured in terms of his hypothetical "gold" which also indicated the *proportional* wage. And in fact Bailey conceded that "Mr. Ricardo's inference is a legitimate deduction from his premises, if we concede certain postulates. Grant him the kind of value called *real*, which has no relation to the quantity of commodities commanded, but solely to the quantity of producing labour, and it inevitably follows, that there could be no alteration in the *real* value of labour, but from an alteration in the proportion of the product which went to the labourer" (1825: 58). So far, so good. Unfortunately, he errs when he adds: "Neither, if money were always produced by a uniform quantity of labour, could there be any alteration in the money-value of labour (58n). For Ricardo's money wage is, of course, *not* a constant; Bailey seems to have confused Ricardo's with Malthus's measure!

Also to be noted is the fact that Bailey's recognition that the profit rate falls when commodity wages rise (given labour productivity) runs along strictly Ricardian lines, involving as it does the proposition –that *pace* Adam Smith – capitalists cannot pass on the higher wage costs to consumers in the form of higher prices, since the prices, that is the exchange values, of *all* commodities cannot logically be raised simultaneously:

> The proposition, that when labour rises profits must fall, is true only when its rise is not owing to an increase in its productive power. If labour rises while these productive powers remain the same, profits will inevitable fall. This may be easily

> proved from the principles already advanced; for if labour rises in value, whoever purchases labour must give a greater quantity of other things for it, and as the capitalist purchases labour, he must pay more for it. It will be said, perhaps, that he may raise the value of his goods, that is, he may require a greater quantity of other commodities than before, in exchange for his own. But the capitalist who produces these other commodities is in the same predicament, and they cannot both raise their goods…. [I]t is a contradiction to maintain, that a universal rise in the value of labour can increase the value of commodities (64-5).[28]

There is not a word here that had not been spelled out conspicuously by Ricardo, though Bailey chose not to mention this fact:

> No alteration in the wages of labour could produce any alteration in the relative value of these commodities: for suppose them to rise, no greater quantity of labour would be required in any of these occupations, but it would be paid for at a higher price, and the same reasons which should make the hunter and fisherman endeavour to raise the value of their game and fish, would cause the owner of the mine to raise the value of his gold. This inducement acting with the same force on all these three occupations, and the relative situation of those engaged in them being the same before and after the rise of wages, the relative value of game, fish, and gold, would continue unaltered. Wages might rise twenty per cent., and profits consequently fall in a greater or less proportion, without occasioning the least alteration in the relative value of these commodities (1951-73 *1*: 28-9).

III REGARDING BAILEY'S INFLUENCE ON OTHER "DISSENTERS": COTTERILL, READ, SENIOR, LLOYD, TORRENS

To arrive at an overall evaluation of a writer's influence is notoriously difficult and some efforts merely amount to loose subjective generalizations, such as Schumpeter's "a poll of writers on value from 1826 to 1845 would produce a considerable majority for Bailey" (above, p. …), or Blaug's representation of the attitude of Torrens toward Bailey as "typical, perhaps of the average reaction" (below, p.…).. We shall take the easier route and limit ourselves to questioning the assertions by Seligman and other commentators regarding a "major" influence by Bailey on specific authors.

Seligman represented Bailey as an "acute critic" of Ricardo on value who "exerted considerable influence at the time" (above, p. …). But when we seek the justification for this assertion we find only a focus on an alleged impact on C.F. Cotterill:

> … the views of Bailey were in part repeated and developed by Cotterill in his *Examination of the Doctrines of Value* [1831]. Cotterill makes short work of the labour theory of value, which he deems to have been completely refuted by Bailey, the author of the *Critical Dissertation*, of whose name he seems to be ignorant. He, nevertheless, proceeds to repeat the arguments, "as there are some Ricardians still remaining" (1831: 8). De Quincey's dialogues he considers "an ingenious logical legerdemain" (38). Like Bailey, he opposes to the labour theory the cost of production theory of value. He proceeds, however, to criticize Bailey on one point, and in this criticism, he marks a retrogression. Bailey thought that the cause of changes of value "may be correctly stated to arise principally from the cost of production and that the cost of production may be either labour or capital, or both" (1825: 205). Cotterill contends that this definition or cost is defective, because it does

not include profit (1831: 41) (Seligman 1903: 355).

There is also Cotterill's broadening of the rent concept to labour, but on this matter "Senior as well as Cotterill was preceded … by Bailey" (356). It will be noted that Seligman is unclear whether in his estimation Senior owed a positive debt to Bailey. He also makes mention of Samuel Read who "confesses that in his main point of theory he has been anticipated by Bailey," referring to the proposition that wealth is not the result of accumulated labour, but of labour and capital (517; also 353), which again does not necessarily imply influence.

In my view the Seligman-Schumpeter reading of Cotterill is wanting. In the first place, Cotterill's comment that there are "some Ricardians still remaining" (above, pp. …, …) cannot bear the weight both place upon it, for Cotterill also refers to variations of exchange value proportionate to variations in relative labour input as a proposition which "most economists maintain" – in contrast to Smith's position relating increases in prices "to the rise in wages" (1831: 107). Beyond this, and yet more damaging, is Cotterill's own recognition of the *need for* an "invariable standard," and his belief in *the possibility of its construction*; indeed, amongst the most important features of his pamphlet Cotterill himself counted the statement of "the conditions necessary to a standard of value" and the refutation of "the erroneous doctrine that the supposition of such a standard involves contradictory conditions" (v). *And it was Bailey (as well as Torrens) whom he largely had in mind by this latter statement* (99). His main objection as far as concerned Ricardo himself was to the specific character of Ricardian "money" as an invariable standard – in his estimate it was impossible to talk meaningfully of exchange value in terms of such a medium – but not to the principle of the matter. In fact, Cotterill himself provided illustrations of the "correct" procedure designed to guarantee that aggregate money value remains unchanged in the face of an alteration in distribution (76). And he candidly recognized Ricardo's contribution to the proposed solution: "The conditions, however, essential to an invariable standard, do appear to me so very obvious, especially upon Mr. Ricardo's own principles in opposition to Adam Smith."[29]

Cotterill, moreover, was dissatisfied with significant parts of Bailey's performance regarding the "causes" of value: "the causes of value, as stated by the author of the '*Critical Dissertation*s &c' are extremely unsatisfactory: notwithstanding many parts of that work cannot but be admired by everyone friendly to the science of political economy" (1831: 53);[30] nor did he think that Bailey's work constituted "a performance likely to set the controversy at rest; on the contrary, I consider the Author's use of the term value, on many occasions, inconsistent with its obvious meaning, and the chapter on the causes of value, in my opinion leads to nothing less than complete scepticism. So that, however, certain I am, that the work has done much to evolve the difficulties in which the subject was acknowledged to be enveloped, and however dexterously I conceive the author detected the double meaning in which Ricardo used the term [exchange value and real value] I cannot but regret the appearance of these blemishes" (40-1). Thus if Cotterill was critical of Ricardo in the context of the causes of value, he was equally dissatisfied with the treatment by Bailey, whose explanation of long-run exchange value in terms of cost of production was "defective": "it does not include profit, and therefore never can determine value, because, though the labour or capital should not vary, the profit may vary, and consequently the value of any commodities." (On similar grounds Cotterill objected also to Torrens (46).) He was also critical of Bailey's position on the measure of value, as we have seen.

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Seligman's linkage of Read's book to Bailey's contribution (above, p. …) and more strongly Schumpeter's comment that Read's work "bears witness to the influence of Bailey whom

Read followed in his Ricardo criticism . . . " (1954: 488) are open to question. Read's central position is that "[l]abour itself cannot vary, because it consists of a fixed and invariable quantity of bodily toil, pain, or suffering, which the labourer must undergo, and which times, nor places, nor the power of men cannot alter. Wages may indeed vary, and we can understand the proposition when it is said that wages rise or fall; but when it is said that labour rises or falls, is there any meaning in the expression? – Is it really intelligible? – What is it that rises when labour rises? – Wages. – But this is not labour itself; it is the reward or recompense of labour" (1829: 105).[31] And he explicitly took Bailey to task for neglecting to consider the value of commodities in terms of "their relation to mankind and to human labour":

> Notwithstanding the very high respect I entertain for this author, it will be seen in the following pages, that I find occasion to differ from him very widely in his main positions in the "Critical Dissertation." It appears to me that the fundamental error in that work, and that from which all the others to be found in it flow, consists in his treating of value as if it were *a mere relation of commodities between themselves*; whereas it appears to me that the idea of value in commodities *cannot even be conceived* without being mingled with the idea of their relation to mankind and to human labour, of which *some portion* must always be employed in producing or procuring them originally (viii).[32]

Professor Meek in his study of the "decline of Ricardian economics in England" refers to this same passage relating value to "mankind and human labour," but mistakenly understands it as a position rejected by Read who attributed it to Ricardo, rather than one *maintained by Read himself*, and observes that "it was this vital concept which virtually vanished from English political economy after Ricardo's death" (1967: 67). The evidence to the contrary speaks for itself at least as far as concerns Read.[33]

* * *

I return to Seligman's comment regarding generalization of the rent doctrine, that "Senior as well as Cotterill was preceded … by Bailey" (above, p. …) which does not necessarily imply *influence*. Bowley too is somewhat reticent: "It is tempting to consider Bailey as … of some importance [in the development of Senior's economics] although Senior never referred to the Dissertation in connection with the theory of value …" (1937: 94); again, regarding "the bearing of the existence of different wage rates on the labour theory of value," she writes, "played some part in Bailey's criticism of Ricardo [and] may have indirectly influenced [Senior]" (193); and regarding the "extension of the rent concept" by Senior in *Political Economy* (1836: 129-30), that "Bailey had already extended it to wages in 1825" (131; also 70n).[34]

Mark Blaug does, however, insist on a positive and strong obligation of Senior to Bailey:

> Nassau Senior seems to have been the only writer to have realized that Bailey's criticism contained the germs of a far-reaching reconstruction of basic economic concepts. In an appendix to Whately's *Elements of Logic* (1826) [see Senior 1951(1836): 227-39] he adopted Bailey's generalization of the concept of rent as only a "species of an extensive genus," while avoiding Bailey's abuse of the term "monopoly." Furthermore, Senior pointed out, what is spoken of as "profits" includes the "wages of the labour of the Capitalist," whereas much of what is included under "wages," such as the income of professionals, ought to be classed under "profits" in that the acquisition of professional skills is analogous to the investment of capital (1958: 58).

"One need only glance at Senior's earlier economic writings," Blaug declaims, "to realize how much he had learned from Bailey."[35]

Blaug is here referring to Senior's "Report on the State of Agriculture," for the *Quarterly Review* of 1821.[36] But if we take the trouble to read this article we find ample material suggesting that *it is Bailey who in 1825 might have been initially inspired by Senior in certain key respects*. Particularly noteworthy is Senior's representation of rent as a *monopoly* return and its exclusion from price; his insistence that it is not the cultivation of inferior land that is the "cause" of a high corn price, but the high price itself, due to high demand, that is the "cause" of the cultivation of inferior land and the emergence of rent;[37] and his observation that "when we say that the price of a thing is governed by the cost of production [referring to intra-marginal corn units] we mean the cost of its own production, not of the production of something else [marginal corn units], "all of which are to be found in Bailey 1825. (See Appendix C.

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I shall allow myself brief comments on Lloyd and Torrens both highly praised by Seligman. As for Lloyd, Seligman we recall, did not assert an explicit influence upon him by Bailey, though he seems to suggest that Bailey by clearing away the undergrowth by his criticism of Ricardo allowed Lloyd to proceed more readily to a marginal utility exposition. Now Seligman presumed Lloyd to be a full-fledged dissenter from Ricardo, and it is true that his definition of "value" focuses on utility. But the purpose of his pamphlet was to demonstrate the *legitimacy* of saying of a commodity that it varies in value "without any reference to other objects" (1834: 28). He *rejected* the assertion (as expressed anonymously by J. S. Mill in the *Westminster Review* in 1825) that "value is a relative term: if it is not this, it is nothing: if any one talks about absolute value, or any other kind of value than exchangeable value, we know not what he means" (34).[38] He similarly took Say to task for his proposition that "the valuation of an object is nothing more or less than the affirmation, that it is in a certain degree of comparative estimation with some other specified object" (citing Say 1880 [1819]: 284); and he objected to that proposition as elaborated in *Verbal Disputes* (1821: 10-11), which, as we have noted earlier, resembles Bailey's *Critical Dissertation*. All this greatly complicates the usual story, as we found to be the case regarding the view of Cotterill and Read as *obliged* to Bailey.

Other complexities arise in the case of Torrens, whose description of the *Critical Dissertation* as a "masterly specimen of perspicuous and accurate logic," is said to be "typical, perhaps, of the average reaction" to Bailey (Blaug 1958: 57 citing Torrens 1826: xii). More specifically, he is reported in Mallet's celebrated account of the Political Economy Club's meeting on 13 January 1831 as opining regarding the status of Ricardian value theory that "the dissertation on the Measure of value published in 1825 by Mr. Baillie of Leeds, has settled that question" (1921: 223).

Two points are in order regarding Torrens's reaction as an adequate index of Bailey's influence. First, Torrens intended by the general abandonment of Ricardian value theory, the replacement of the pure labour theory by a cost of production theory, which we know to have been Ricardo's own position all along (above, p….). (On this matter, see Bowley 1937: 90-1.) Second, Torrens entered a very strong defence of Ricardo's proportions-measuring "gold" in his later writings, basing himself on Longfield's position that all non-labour inputs may be reduced to labour so that the only payments to consider ultimately are wages and profits" (Longfield 1834: 172f). Accordingly, Ricardo's linkage of the profit rate to the proportionate shares held good; moreover, Longfield also justified Ricardo's isolation of the conditions required to assure that changes in *money* wages reflect changes in *proportionate* wages (266-7). As Robbins shows (1958: 55), it is this defence of Ricardo that Torrens accepted both in *Colonization of Southern Australia* 1835,[39] and later in *The Budget* 1844.[40] Any positive influence by Bailey on Torrens in the 1820s would have been only temporary.

IV BAILEY AND THE "RICARDIANS": JAMES MILL AND McCULLOCH

Though Seligman himself was not concerned with the "Ricardians," later commentators have considered the influence that Bailey might have exerted on them. We shall take up in this section the cases of James Mill and McCulloch.

J.S. Mill refers in his *Autobiography* to changes introduced by James Mill into the third (1826) edition of the *Elements* with respect to profit theory based (in some unstated way) on the "Conversations" held at Grote's house (1963-91 [1873] *1*: 125).[41] Since the *Critical Dissertation* was one of the books examined by the study circle, the question of Bailey's possible influence on James Mill naturally arises.[42]

We shall take as base point the second (1824) edition of the *Elements*. When considering the contention by some "that profits of stock depend not solely upon the share received of that which is divided, but also upon the magnitude of the whole that is to be divided," Mill distinguishes between "profits" as a quantity of commodities and its more "common" meaning as a rate of return on capital (including food, raw materials and tools) – a ratio of values – asserting that only in the latter case do "profits depend wholly upon wages," since technical progress (or diminishing returns) raising (or lowering) output yielded by *given* capital and labour will not affect *aggregate* value of that output, so that "if the value of that which is divided as wages of labour and profits of stock remains the same, it is obvious and certain, that the proportion of that value which goes as profits of stock depends wholly upon that which goes as wages. The rate of profits, therefore, or the ratio which the value of that which is received by the capitalist bears to the value of the capital depends wholly upon wages" (1824: 73-6).

It is thus Mill who, before Bailey, pointed to the more usual sense of profits as a *rate of return*, though he insisted that on this usage the inverse wage-profit relation held good despite changing productivity; only with the uncommon usage of profit as an absolute quantity of commodities did the inverse relation require qualification.

Much of this is reworked in the third (1826) edition of the *Elements* and it has been suggested, *inter alia* by Rauner, that as far as concerns the theory of profits the "influence of Bailey is discernable (Rauner 1961: 114), though Rauner concludes "[i]t would perhaps be wrong to claim that Mill's struggles with the profits problem grew exclusively out of Bailey's criticisms" (117). In our view this is a fair summing up. Doubtless the revisions were made in the light of the *Critical Dissertation*, and it is only to be regretted that Mill nowhere mentions Bailey (see Winch 1966: 191). But we find no substantive retractions in the new version; rather, Mill sought to strengthen the Ricardian case.

The 1826 alteration sets out by clarifying that "[i]n speaking of the produce which is shared between the capitalist and labourer … I always mean such net produce as remains after replacing the capital which has been consumed…. [W]e must set apart the portion, always a determinate amount, which is for the capital consumed, and which is distinct from profits and from wages" (1826a: 71-2). Mill then proceeds to distinguish between an alteration of profits or wages in *proportionate terms*, where "the proposition that profits depends upon wages, admits of no qualification" – evidently, since this follows by definition – and in *absolute terms* as a change in the quantity of commodities" (72). Regarding the latter case:

> If a change in the quantity of commodities is meant, it will not be true, in that sense, that profits so depend upon wages, as to fall when wages rise, and rise when wages fall: for both may fall, and both may rise together. And this is a proposition that no political economist has called in question. If the powers of production are either increased or diminished, there will, in the one case, be more, in the other less, to

> divide. The proportions remaining the same, both wages and profits will, in the one case, be raised, in the other depressed.[43]

This in fact adds little to the 1824 conclusion, but it nicely confirms our position in Section II (above, pp. …).

Of greater potential interest, at first sight at least, is the specification of a change in wages and profits in terms of *value*. If *value-in-exchange* is intended the original conclusion regarding the *quantity or absolute* dimension remains: "When we say that the labourer receives a great quantity of commodities, and when we say that he receives a greater exchangeable value, we denote by the two expressions, one and the same thing. In this sense, therefore, nobody has ever maintained that profits necessarily rise when wages fall, and fall when wages rise: because it was always easy to see, that, by an alteration in productive power, both may rise or fall together, and also that one may rise or fall, and the other remain stationary" (1826: 74). But when the sense of *Ricardian or "real" value* is adopted, *whatever the output to be shared*, its value – if produced "by an invariable quantity of labour" – remains constant, so that should wages rise in "value" the remainder or profits falls, and "[i]n this sense of the word value … it is strictly and undeniable true, that profits depend upon wages so as to rise when wages fall, and fall when wages rise" (75). However, this too merely restates, if in sharper terms, what had been affirmed in 1824 that aggregate value remains unchanged (above, p…).

Now at this point Mill reverts – as in 1824 – to "the common mode of expressing profits "as a rate of return on capital "including the wages, which it is necessary to advance," for in practice profits are expressed not "per cent of the produce but per cent upon his capital." Yet in the end this too is played down:

> Suppose a capital of 200*l.* of which 50*l.* is consumed in the production of a

> commodity, which sells for 120*l*.; we have first to deduct 50*l*. for the capital consumed; there then remains 70*l*. to be divided between the capitalist and the labourers; and if we suppose that 50*l*. has been paid for wages, in other words, that such is the share of the labourers, the capitalist receives 10 per cent upon his capital; including here, in the term capital, what he has advanced as wages; but he receives 28½ per cent of the produce, or of that which is divided after replacing the capital consumed. It is only, however, the language which here is different; the thing expressed is precisely the same; and whether the capitalist says he receives 10 per cent upon his capital, or 28½ per cent of the produce, he means in both cases the same amount, viz. 20*l*. (75-6).

The rate-of-return perspective as the *usual* mode of expressing profits so much insisted upon by Bailey – and for which James Mill himself had precedence – is thus identified with the proportionate shares (of *net* produce) perspective. And the inverse wage-profit relation as holding good unreservedly in this case is *reaffirmed* as in 1824. Bailey had exerted no effort whatsoever.

Torrens's part in this episode bears mention. In the preface to the third edition of his *Essay on the External Corn Trade* he controverted Mill's 1826 defence of Ricardo's inverse relationship, maintaining that proportional wages might remain unchanged while the profit rate increased when account is taken of non-labour inputs (Torrens 1826: xvi-xviii), that *pace* Mill the inverse relation "was equally untenable, whether the terms alterations of wages, alterations of profits are employed with a reference to proportions, or whether they are used in relation to quantities" (xv-xvi), in effect putting his weight behind Bailey.[44] (See also below, pp. … regarding Torrens's commendation of McCulloch for accepting Bailey's criticisms.) As already mentioned (above, pp. …), Torrens later withdrew the objection, basing himself on Longfield's defence of Ricardo.

There remains to note the conditions required of a measure of value, namely that it be a product produced by a constant quantity "of labour and capital" – identified with "immediate" and "hoarded" labour (Mill 1824: 108-110), and that it be produced "under the medium circumstances" and this "because by far the greater number of commodities are produced under circumstances more nearly approaching to the medium than any of the extremes" (111).[45] Mill points to real-world gold as most closely approximating the latter condition, that is as "less imperfect as a measure of value than any other commodity, perhaps which could be taken" (112). A mean-proportions measure is required to minimize the variations in relative prices upon a change in the wage rate (109). Such effects, Mill does allow, despite his notoriously extreme formulations of a labour theory (94, 97) for which he was taken to task by Bailey (1825: 207, 217-19).[46] Furthermore, though the price structure is disturbed by a change in the wage in terms of medium-proportions money, *aggregate* value remain unchanged:

> If money be supposed to correspond with case No. 2, or to be produced, which is probably not far from the fact, by equal proportions of labour and capital, then all commodities produced under these medium circumstances are not altered in price by a rise of wages: those commodities which approach nearer the first extreme, or admit a greater proportion of labour than capital in their formation, rise in price: those which approach the second, that is, have a greater proportion of capital than labour, fall: and, upon the aggregate of commodities, or all taken together, there is neither fall nor rise (107-8).[47]

These Ricardian formulations remain unchanged in 1826: 105-17. Bailey's objections left no impression whatsoever. A commendation of McCulloch – who had "most pertinently and conclusively remarked … that time does nothing. How then can it create value? Time is a mere abstract term. It is a word, a sound" (1824: 99) – is deleted, presumably in reaction to Bailey's animadversions, but a more elaborate justification is offered for conceiving capital as "hoarded labour" (cf. 1824: 97-9 and 1826: 101-4). There is no "retreat" on substantive matters.

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O'Brien, in his specialist study of McCulloch, makes the point that Bailey's "famous onslaught [on Ricardo] might have been expected to have a significant impact on McCulloch," but it failed to do so partly because "his main fire was directed against the invariable measure; McCulloch was with him there" (O'Brien 1970: 137), which I take to mean that McCulloch had no need for Bailey on this issue.[48] Again: "The invariable measure was central to Ricardo's system [but] never interested McCulloch at all…. [T]hough McCulloch paid a great deal of lip-service to Ricardo, he never accepted his position: hence his acknowledgement of Bailey's comments on the invariable measure" (146).

An indication of McCulloch's position on the standard value is provided by two letters to Ricardo of 1823 which might – except for the accompanying labour-theory element – easily have been written by Bailey himself so close are they on the matter of principle:

> It is evident I think that there neither is nor can be any real and invariable standard of value; and if so it must be very idle to seek for that which can never be found. The real inquiry is to ascertain what are the circumstances which determine the exchangeable value of commodities at any given period – and these I think are all clearly reducible to one – the comparative quantities of labour bestowed on their production (11 August 1823; in Ricardo 1951-73 *9*: 344).
>
> Neither does your objections, originating in the fluctuations to which capitals are

> liable, apply to my theory – If I were seeking a standard to measure values at distant periods they would apply and would be decisive; but this is no part of my object – I am only endeavouring to ascertain the circumstances which determine the comparative values of the commodities in the same market – The question agitated between you and Malthus is totally different – it is, what are the circumstances necessary to give invariability of value to any commodity? – This is a question which I believe is quite insoluble, but at any rate it does not come within the scope of my inquiries – I leave it to be settled by my masters – Before entering on this transcendental part of Pol Economy I must be more sure than I am at present of the elements; and before I attempt to get a measure of the value of cloth and wine in the reign of Augustus and George IV, I must obtain a measure of their value in the same market – (24 August; 369).[49]

Bailey thus had little to teach McCulloch, and O'Brien is correct to point this out. But he loses sight of the fact that in his *Principles* McCulloch proceeds along purely Ricardian lines. He seems to have taken to heart Ricardo's position (very much in the manner of James Mill), as I shall now show.

McCulloch cites Bailey favorably at one point in his *Principles*: "The conditions essential to the production of an invariable measure of *exchangeable value* were first clearly pointed out in the *Dissertation on the Nature, Measures, and Causes of Value*, p. 17 (McCulloch 1825: 214n; emphasis added).[50] This can only refer to Bailey's case that a measure of *exchangeable* value makes no sense – that "how constant or uniform soever a cause affecting one commodity may be; it cannot make that object of constant value, without the concurrence of other invariable causes acting upon the commodity with which it is compared" (1825: 17; see above ….). We reiterate, however, that Ricardo needed no convincing since his quest had been rather to isolate the "source" of an observed change in exchange values, fully aware of the complexities involved (above, p. …).[51] And this quest is reflected in McCulloch's *Principles*. Certainly he writes that an invariable measure – of *real* value or costs – is *in practice* unattainable since all commodities are subject to "perpetual variations" in labour input reflecting diminishing returns and/or technical progress (221), but the requirements *in principle* – which are all Ricardo sought to define – are spelled out. Thus, as a conspicuous instance, McCulloch distinguished conceptually between a nominal wage change and a "real" wage change the latter reflected by a change in terms of money of "invariable value," or money produced with constant labour input, which also implies a change in *proportional* wages (295);[52] and it is the latter that concerned him with an eye to profit-rate determination (365, 380; see below p…n,…). A second condition is that money be produced by a process entailing mean factor proportions (310). Yet more important, McCulloch demonstrated that a rise in the wage leaves unchanged *aggregate* value though the price structure will be affected, *implicitly* applying a mean-proportions measure:

> It must also be observed, that though fluctuations in the rate of wages occasion some variation in the exchangeable value of particular commodities, they neither add to nor take from the *total value* of the entire mass of commodities. If they increase the value of those produced by the least durable capitals, they equally diminish the value of those produced by the more durable capitals. Their aggregate value continues, therefore, always the same. And though it may not be strictly true, of a particular commodity, that its exchangeable value is directly as its *real* value, or as the quantity of labour required to produce it and bring it to market, it is most true to affirm this of the mass of commodities taken together (312-13).

In correspondence of 13 June 1820 with McCulloch, be it noted, Ricardo had suggested as measure "a medium" between the extreme factor ratios as "best adapted to the general mass of commodities" (Ricardo 1951-73 *8*: 193). This rationale is briefly alluded to in his third edition (1951-73 *1*: 45-6). Again in later correspondence of 21 August 1823, Ricardo wrote: "as the great mass of commodities is produced by the union of labour and capital for a certain length of time, I have nothing to amend in the choice I have made; I consider it a mean" (1951-73 *9*: 361). Now McCulloch *adopted* this line in his own *Principles*, where disturbances to the price structure generated by a wage change are played down on the empirical grounds that they are "confined within comparatively narrow limits…. [because] in point of fact, a very large class of commodities are produced by means of nearly equal portions of fixed and circulating capital…." (311). Here McCulloch was following Ricardo, but he may also have benefited from James Mill's formulations, since various examples devised to indicate the impact on the price structure of a change in the way are said to be "substantially the same" as those in Mill 1824: 103 (McCulloch 1825: 309n). Subsequently, McCulloch went even further by referring to the alleged feature that *real-world* money, "which is all but universally taken as a standard by which to estimate price, is usually produced by capitals of about the medium degree of durability" so that "the influence of variations of wages on prices, will, on the whole, be confined within very narrow limits, the rise in those mainly produced by hand labour being balanced by the fall in those principally produced by machinery" (1864: 292).

Most significant is the fact that McCulloch *reinforces* the Ricardian structure by providing an allocative rationale – later adopted by Marx – for the price restructuring created by a wage increase, turning on the correction, by way of resource transfers, of profit-rate inequalities:

> It is plain, however, that this discrepancy in the rate of profit must be of very

> temporary duration. For the undertakers of those businesses, in which either the whole or the greater portion of the capital is laid out in paying the wages of labour, observing that their neighbours, who have laid out the greater portion of their capital on machinery, are less affected by the rise of wages, will immediately begin to withdraw from their own businesses, and to engage in those that are more lucrative. The class of commodities produced by the most durable capitals, Nos. 7, 8, 9, 10, &c. will, therefore, become redundant, as compared with those produced by the least durable capitals, Nos. 1, 2, 3, 4, &c.; and this increase on the one hand, and diminution on the other, will have the effect to sink the value of the commodities produced by the *most durable* capitals as compared with those produced by the *least durable* capitals; or, which is the same thing, to raise the value of the latter compared with the former, till they all yield the same rate of profit.
>
> The class of commodities produced by capital of the *medium* degree of durability, or by No. 6, would not be affected by the rise; for, whatever they lost in exchangeable value, as compared with the commodities produced by the less durable capitals, they would gain as compared with those produced by the more durable capitals (303-4).

All of this, is properly represented by McCulloch as a confirmation of Ricardo's position (298-9, 313), though McCulloch errs by implying that a wage change generates no change in general prices only when the output to be shared is constant (306).

McCulloch's adoption and indeed reinforcement of the Ricardian perspective is scarcely in the nature of "lip service," as O'Brien would have it.[53] And only thus can we properly appreciate his stance twenty years later when he repeated *verbatim* his 1825 position that "[t]he conditions essential to an invariable measure of exchangeable value were first clearly pointed out in [Bailey's] dissertation" (1845: 33), now adding: "but however ingenious and acute, Mr. Bailey does not appear to have properly appreciated the Ricardian theory of value, or to have succeeded in any degree in shaking its foundations." Bailey evidently had no effect on McCulloch – as he had none on James Mill – not because McCulloch sided with Bailey on the invariable measure but, to the contrary, because he *rejected* Bailey's "famous onslaught."

There are other objections to the *Critical Dissertation*. One entails a strong defence of De Quincey against Bailey:

> The acute and ingenious author of the *Templars' Dialogues*, (*London Magazine*, May 1824, p. 551,) has stated, that "It is very possible for A continually to increase in value – in *real* value observe – and yet command a continually decreasing quantity of B" [1970 (1834): 80]. This passage has been animadverted upon by the author of the *Critical Dissertation on the Nature, Measures, and Causes of Value* [1825: 41]. Nothing, however, can be more perfectly correct than the statement in the *Dialogues* – A and B have been produced by certain quantities of labour; but more labour is now required to produce A, and a still greater proportional quantity to produce B; under these circumstances, A must obviously have increased in *real* value, or in the estimation of its producers, for it has cost them a greater sacrifice of toil and trouble; but as A has not increased so fast in real value as B, it is plain it will now exchange for, or purchase a less quantity of B. It is difficult to conceive how the author of the Dissertation should not have perceived this distinction; but if he had perceived it, he would certainly have spared not a few of the remarks he has made on the statements advanced by Mr. Ricardo, as well as by the author of the *Dialogues*. *Dissertation on the Nature*, &c. p. 41 (220n).

A second relates to rent theory where McCulloch makes appeal to Ricardian *marginal costs*:

> I may here observe, that the author of the *Critical Dissertation on Value* [Bailey 1825: 194], contends, that because the value of that corn which is raised on lands paying rent, is not, after inferior lands are taken into cultivation, proportioned to the cost of its production, it is incorrect to represent the value of the aggregate quantity of produce raised in a country where cultivation has been extended over inferior lands, as depending on that principle. But those who maintain, that the value of raw products, and of all those commodities whose quantity can be indefinitely increased, by the application of fresh capital and labour to their production, is regulated and determined by the cost of their production, invariable refer to the quantity of labour required to produce that portion of raw produce, or of any required commodity which is raised under the most unfavourable circumstances (285).

There remains to discuss a further aspect of the Bailey-McCulloch relationship perceived in the literature, entailing a transition by McCulloch from the pure Ricardianism, with respect to profit rate determination, of his 1823 contribution to the *Encyclopaedia Britannica*, to a qualified version appearing in his *Principles* 1825 under the influence of Bailey's *Critical Dissertation* (see Rauner 1961: 113-14). For "McCulloch himself had not freed profits from dependence on 'proportional wages' until after the *Critical Dissertation* had appeared" (113). We shall consider this assertion.

Consider first McCulloch's exposition in 1823 of the inverse wage-profit relation in the context of secular growth, indicating the joint incidence of diminishing returns: "profits" – the context specifies concern with the *profit rate* though leaves the denominator of the expression undefined – "do not depend on wages estimated in money, in corn, or any other commodity, but on *PROPORTIONAL wages, that* is, *on the share of the commodities produced by the labourer, or of their value, which is given to him*" (McCulloch 1823: 149).

In the 1825 version by contrast the matter is more complex: "there are very many exceptions to Mr. Ricardo's theory":

> Mr. Ricardo has endeavoured to show, in one of the most original and ingenious chapters of his work, that the *RATE of profit* depends entire on the *proportion* in which the produce of industry, under deduction of rent, is divided between capitalists and labourers; that a rise of profits can never be brought about, except *by* a fall of proportional wages, nor a fall of profits, except *by* a corresponding rise of proportional wages. It is evident, however, that this theory is universally true, only in the event of our attaching a different sense to the term profits, from what is usually attached to it; and supposing it to mean the *real* value of the entire portion of the produce of industry, falling, in the first instance, to the share of the capitalist, without reference to the proportion which the *magnitude* of this produce bears to the *magnitude* of the capital employed in its production. Thus understood, Mr Ricardo's theory holds universally; and, on this hypothesis, it would follow, that, so long as the proportion, in which the produce of industry, under deduction of rent, is divided between capitalists and labourers, continues the same, no conceivable increase or diminution in the powers of production, could occasion any variation in the rate of profit. But, if we consider profits, in the light in which they are invariably considered in the real business of life, – as the portion of the produce of industry, accruing to the capitalists in a given period of time, after all the produce expended by them in production during the same period is fully replaced, it will immediately be seen, that there are very many exceptions to Mr Ricardo's theory (1825: 367-8).

Now "capital" in this context includes non-wage items and not only wages – *all* outgoings (see also 366) – and this is of high significance when we turn to one of McCulloch's specific results, namely that "the proposition that a rise of profits can never be brought about otherwise than by a fall of wages, nor a fall of profits otherwise than by a rise of wages, is true only in those cases in which the productiveness of industry remains constant. So long as this is the case, or, which is the same thing, so long as the same capital is employed, and the same quantity of produce has to be divided between capitalists and labourers, it is impossible the share of the one can be increased without that of the other being diminished" (373). Moreover, "if profits depended on the proportion in which the produce of industry is divided between capitalists and labourers, they could not be affected by variations in its productiveness, but would be determined wholly by the state of proportional wages. But *profits depend on the proportion which they bear to the capital by which they are produced*, and not on the proportion which they bear to wages" (373-4). In an example entailing a doubled return given labour and non-wage capital, McCulloch shows that "both parties will still obtain the same proportions of the [net] produce of industry as before; and if we look only to them, we must say that neither profits nor wages have risen. But, when we compare, as is invariable done in estimating profits, the return obtained by the capitalist with the capital he employs, it will be found, notwithstanding proportional wages have remained constant, that the *rate* of profit has increased from 20 to 54 percent" (374).[54]

Rauner makes his case for a positive influence exerted by Bailey by comparing McCulloch's insistence on perceiving profits as a ratio of net produce to "the capital employed in its production" with Bailey's definition of profits as the "gain of the capitalist [relative to] the capital employed" (1825: 63), and also his insistence that the inverse relationship held good only with productivity constant (63-4, 70). He also points to Torrens's fulsome praise for Bailey whose *Critical Dissertation* he described as "a masterly specimen of perspicuous and accurate logic" – exerting an "already perceptible influence" (Torrens 1826: xii-xiii), which is followed immediately by reference to McCulloch's *Principles*: "In his recent work upon Political Economy, Mr. M'Culloch has, with laudable candour, corrected, in an essential degree, his former opinions on the subject of profit; and has admitted, that Mr. Ricardo's principles are tenable, only when we pervert from their established acceptation the terms in which these principles are expressed. This is the same thing as admitting, that the Ricardo doctrine is erroneous. Arbitrary alterations in the meaning of terms are not discoveries in science" (xiii). Torrens evidently had in mind the passages by McCulloch 1825: 367f. cited above (see also Robbins 1958: 53).

It will be recalled that James Mill insisted on the inverse profit-wage relation even when profits in the sense of a rate of return on capital is employed (above, p…). McCulloch was prepared to qualify the principle in that case. Yet the details of his argument are not quite those of Bailey. In the first place, Bailey's rate of return relates to absolute profits relative to *wage* capital alone (Marx's rate of exploitation, s/v), whereas he perceived the wage as a commodity wage (above, p. …); by contrast, McCulloch – very much like James Mill – took the profit rate as net profit relative to capital *including non-wage items* (Marx's s/(c+v) and retained the notion of proportional wages. Thus McCulloch's criticism of the inverse relation is in fact rather more substantive than Bailey's since although Ricardo formally defines his capital stock of £3000 in his illustrations in the chapters "On Wages" and "On Profits" relating to profit-rate determination as including *non-wage* items as well as wages (1951-73 *1*: 117), this seems to be an afterthought adding nothing to the basic analysis.

For all that, it is instructive to trace out McCulloch's treatment of the course of the real wage and profit rates during the course of secular expansion given technology in order to confirm further the extent of his continued adherence to Ricardianism in the *Principles*. To be noted first is his firm rejection of Smithian "increasing competition of capitals" as cause of the falling profit-rate trend (375) in favour of Ricardian land scarcity, and *its effect on proportional wages*: "*The decreasing fertility of the soil is … the great and only necessary* *cause of a fall of profits*. The *quantity* of produce forming the return of capital and labour would never diminish, but for the diminution that uniformly takes place in the productiveness of the soil: nor is there any other physical cause in existence why the *proportion* of wages to profits should be increased, and the rate of profit diminished, as it uniformly is, in the progress of society" (380-1). So we revert after all to *the profit rate as a function of the proportionate shares* – as in 1823 – despite all the *mea culpas* to the effect that the Ricardian theory breaks down except when output is constant. Indeed, McCulloch goes yet further in confirming his Ricardian *bonâ fides* by insisting – again as in 1823 – on a necessary increase in the *proportionate* wage even in the complex case of a declining commodity wage in the course of secular growth assuming land scarcity, a trend represented as one "uniformly found":

> … proportional wages may … be increased at the same time that wages, if estimated in silver, corn, or any other commodity, are reduced; *and such, in point of fact, is almost uniformly found to be the case, when tillage is extended over inferior soils*. Wherever the best lands only are cultivated, the proportion or share of the produce of industry falling to the labourer, is, generally speaking, small; but as labour is, under such circumstances, comparatively productive, a small share of its total produce, gives a large absolute quantity of necessaries and conveniences: while, in the advanced stages of society, and when cultivation is widely extended over lands of very inferior fertility, proportional wages are almost invariably high; but, owing to the increased difficulty that then obtains of producing supplies of food, these high proportional wages rarely afford a large supply of necessaries and conveniences (362-3; emphasis added).[55]

Rauner is therefore right to some extent when he concluded that "Bailey's *Critical*

Dissertation did not make much headway with the Ricardians" – that though McCulloch "flirted with some of Bailey's notions … when it came to the point, he was unable to carry out the full implications of his dalliance" (1961: 118). My only qualification is that Bailey too remained in Ricardo's camp, though perhaps unwillingly.

IV BAILEY AND THE RICARDIANS: J.S. MILL

Seligman made no mention of J.S. Mill in his paper. But much of Schumpeter's case for the early demise of Ricardianism (above, p. …) turned on the alleged influence of Bailey's *Critical Dissertation*, and he certainly implies that J.S. Mill represented the pattern. For, so runs his argument, Mill rejected the conception of a measure of absolute value; only *relative price* mattered, and since value was a ratio all values could not vary simultaneously (1954: 589). Similarly, there was no such thing as "the total value of all the services of wealth (or of all wealth) taken as a whole" in contrast to the position adopted by Ricardo and Marx. Indeed, "the energy with which Mill insisted on the relative character of [exchange value] completely annihilated Ricardo's Real Value and reduced other Ricardianisms to insipid innocuousness" (603). Blaug in the same manner has asserted that "Mill does not derive the theorem about profits and wages, as Ricardo has done, from the concept of an invariable measure of value. Even the standard Ricardian thesis that 'general wages, whether high or low, do not affect values' is entirely divorced from the notion that value is to be measured by an invariant standard…. There is no mention in Mill's discussion … of the important role assigned to the invariable measure of value in Ricardo's system" (1958: 172-3).[56] Similarly, O'Brien: "Mill's inverse relationship of wages and profits is not derived from the invariable measure … as it was for Ricardo (1975: 94; 2004: …). And particularly relevant for us is his attribution to Bailey of a potent impact on Mill: "It is … clear that [Bailey] influenced J.S. Mill in a number of areas, including the treatment of rent, the abstinence theory of profit, the inverse relationship of wages and profits, the hierarchy of wages as affecting exchangeable value, and the rejection of the invariable measure – this despite Mill's failure to credit Bailey" (1988: 198-9), O'Brien citing for support Blaug 1958: 167, 173; 1985: 220; Bowley 1973: 167; Rauner 1961: 135-40. In fact, "these were probably the only important influences: the influence claimed on his behalf on Cotterill and Read [Seligman 1903: 355] seems to be unimportant [Rauner 1961: 127-9], and neither counts as a major writer" (199).

Let us first of all look closely at the foregoing contentions regarding the inverse relationship and its derivation by Mill, and Bailey's impact on Mill. We shall keep before us a conspicuous statement on the relativity of value appearing in Mill's early article on the *Quarterly Review on Political Economy*: "Value is a relative term: if it is not this, it is nothing: if any one talks about absolute value, or any other kind of value than exchangeable value, we know not what he means. One commodity may rise or fall in value with respect to another; all commodities cannot rise or fall in value, with respect to themselves" (1963-91 [1825] *4*: 36). Now this appeared in the January issue of the *Westminster Review* and could not possibly have been drawn from Bailey's *Critical Dissertation*. Moreover, the article constituted a defence of McCulloch against Malthus, and Mill by his assertion was denying Malthus's conception of aggregate demand not challenging the Ricardian position regarding absolute value. Unfortunately Lloyd – and so many since – took the statement out of context and applied it to the latter (1834: 34). As for Bailey himself, in *A Letter to a Political Economist* he applauded the sentiment of the article but expressed surprise at finding an insistence upon value as a relative conception in the *Westminster Review* which in 1826 had published an attack – which we know to be by James Mill – upon his own *Critical Dissertation* (Bailey 1826: 37). If the respective contexts are borne in mind the apparent inconsistency of position between the journal volumes creates no difficulty whatsoever.

What then was J.S. Mill's position regarding the value issue? In his *Principles*, in the chapter "Of a Measure of Value" (Book III, Chapter xv), he rejected – as in January 1825 – the notion of a *measure of exchange value* as a conceptual impossibility but insisted upon that of a *measure of cost of production*. The conditions for the measure are stated as follows: "[Economists] have imagined a commodity invariably produced by the same quantity of labour; to which supposition it is necessary to add, that the fixed capital employed in the production must bear always the same proportion to the wages of the immediate labour, and must be always of the same durability: in short, the same capital must be advanced for the same length of time, so that the element of value which consists of profits as well as that which consists of wages, may be unchangeable" (1963-91[1848] *3*: 579). Now such a measure of cost "though perfectly conceivable, can no more exist in fact, than a measure of exchangeable value," because of the likelihood of changes in the production cost of any commodity chosen. Nevertheless, gold and silver "are the last variable" and, if used, the results obtained must simply be "corrected by the best appearance we can make for the intermediate changes in the cost of production itself." This is by no means an out-of-hand rejection of the measure of absolute value, and in fact represents precisely the position adopted by Ricardo who had laid down the requirements for an *ideal* measure fully aware of its impractibility.

Mill also provides a full analysis of the effects of wage-rate changes in his chapter "Distribution, as Affected by Exchange" (Book III, xxvi). When the distribution of national income occurs via the mechanism of exchange and money, Mill argued, the "law of wages" remains unchanged in so far as the determination of the commodity wages is concerned, for this simply depended upon "the ratio of population and capita" (595). However, the implications for the employer were more complex since from his point of view it was not commodity wages that were relevant, but the "cost of labour." Under certain circumstances, the cost of labour would be reflected accurately by the *money* wages paid – namely when money represented "an invariable standard": "Wages in the second sense, we may be permitted to call, for the present, money wages; assuming, as it is allowable to do, that money remains for the time an invariable standard, no alteration taking place in the conditions under which the circulating medium itself is produced or obtained. If money itself undergoes no variation in cost, the money price of labour is an exact measure of the Cost of Labour, and may be made use of as a convenient symbol to express it" (696). Assuming money to be such an invariable measure, the rate of money wages will depend upon both the commodity wage and the prices of wage goods and accordingly productivity in the wage-goods sector. It is upon the "cost of labour" that the rate of profit depended, the cost of labour identified with "money" wages.

In the context of a money economy Mill thus defined an inverse relation between the profit rate and the money wage rate. He did not bother formally to equate the "cost of labour" – in contrast to his practice in Book II of the *Principles* – with the proportionate share of the labourer in per capital output, but referred back in the present context to the earlier analysis (698). Mill in brief adopted the "proportions-measuring" money in terms of which a rise of wages implies an increased share of the labourer in the "value" of his output and a reduced profit share, and accordingly rate of return on capital. The secondary literature, which insists on Bailey's profound influence on J.S. Mill *in converting him away from Ricardo on the inverse wage-profit relation and its derivation in terms of an invariable measure*, is evidently entirely misconceived.

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At this point we turn to a suggestion by Rauner that Bailey's influence on Mill was of another sort, his criticisms of Ricardo inducing Mill to enter a stronger defence in his essay "On Profits and Interest," published in 1844 but written in 1829-30, entailing – according to Rauner – a reinforcement of the proportionality property by emphasizing the wage rate as referring to the *value* of the wage not the commodity or absolute wage (Rauner 1961: 113-17, 135-7).

It must be said that there is some *a priori* justification for linking Bailey's name to Mill's essay on profits. I refer to the autobiographical account of the "Conversations" held regularly at Grote's house in the late 1820s where Mill mentions Bailey and proceeds to discuss various "modifications" to the Ricardian theory in the essay on profits:

> We repeatedly kept up the discussion of some one point for several weeks, thinking intently on it during the intervals of our meetings, and contriving solutions of the new difficulties which had risen up in the last morning's discussion. When we had finished in this way my father's *Elements*, we went in the same manner through Ricardo's *Principles of Political Economy*, and Bailey's *Dissertation on Value*. These close and vigorous discussions … brought out new views of some topics of abstract Political Economy. The theory of International Values which I afterwards published, emanated from these conversation, as did also the modified form of Ricardo's theory of Profits, laid down in my Essay on Profits and Interest…. I may mention that among the alterations which my father made in revising his *Elements* for the third edition, several were grounded on criticisms elicited by these Conversations; and in particular, he modified his opinions (though not to the extent of our new speculations) on both the points to which I have adverted (1963-91 [1873] *1*: 123-5).

The objection to Ricardo appearing in the essay on profits related to his reducing capital entirely to labour, on the grounds that the repayment of *profits* entered into the outlay of a capitalist upon produced means of production, and not merely wages: "It is not correct … to state that all which the capitalist retains after replacing wages forms his profit. It is true the whole return to capital is either wages or profits; but profits do not compose merely the surplus after replacing the outlay; they also enter into the outlay itself. Capital is expended partly in paying or reimbursing wages, and partly in paying the profits of other capitalists, whose concurrence was necessary in order to bring together the means of production" (1963-91 [1844] *4*: 295). In short, the profit rate is not given simply by the ratio of current surplus after replacing outlay to an outlay amounting solely to the wages of direct and indirect labour. Consequently: "Mr. Ricardo's theory is defective: … the profit rate does *not* exclusively depend upon the value of wages, in his sense, namely the quantity of labour of which the wages of labour are the produce; that it does *not* exclusively depend upon proportional wages, that is, upon the proportion which the labourers collectively receive of the whole produce, or the ratio which the wages of an individual labourer bears to the produce of his individual labour" (297). For all that, "[i]t is remarkable how very slight a modification will suffice to render Mr. Ricardo's doctrine completely true." This was to relate the rate of profit to the "*cost* of wages" – which includes the profit of the capital-goods producer – as distinct form the "*value* of wages" – which refers to the labour embodied in the wages bill. But the identity between the cost of wages (the strategic wage variable) and the *proportionate* share of labour in output was no longer tenable: "Mr. Ricardo's principle, that profits cannot rise unless wages fall, is strictly true, if by low wages we mean not merely wages which are the produce of a smaller quantity of labour, but wages which are produced at less cost, reckoning labour and previous profits together. But the interpretation which some economists have put upon Mr. Ricardo's doctrine, when they explain it to mean that profits depend upon the proportion which the labourers collectively receive of the aggregate produce, will not hold at all" (299).

It is only the proximity in Mill's autobiographical account of the modifications to Ricardo's profit theory to his mention of the serious attention paid Bailey at the Grote Conversations that awakens the *possibility* of a Bailey influence, and provides some *a priori* support for Rauner's view pointing to Mill as seeking to reinforce Ricardo after reading Bailey's criticisms. But a linkage of this order is in fact unlikely. Rauner's argument is unconvincing, for it reads Mill's essay as *championing* the proportionality thesis in answer to Bailey's criticisms, whereas Mill was in fact here *denying* its validity. (In any event, Bailey himself, we have seen, had *accepted* the proportionality thesis on Ricardo's use of terms; above, p. ….) Mill's "slight modification," namely the replacement of the "*value* of wages" by the "*cost* of wages," seems to be quite independent of Bailey's commentary. Rather, in this episode can be discerned the possible influence of Robert Torrens, who had insisted that the profit rate depends not only on the proportionate share of wages which governed the ratio of profits to wages, but also on the non-wage capital required, a technological improvement permitting the relinquishing of fixed capital or materials – Marx's "constant" capital – implying a rise in the profit rate (1829: xv-xviii).[57] Even McCulloch is a candidate considering the inclusive character of his "capital" (above, p. …).

Mill's qualification to the Ricardo doctrine was, however, adopted only temporarily. In the *Principles*, as we have seen, he once again championed the proportionality theorem. His argument is simply that since "our supposed capitalist is not meant to represent a single employment, but to be a type of the productive industry of the whole country," the advances may after all be reduced in the last resort entirely to wages: "[I]n the whole process of production, beginning with the materials and tools, and ending with the finished product, all the advances have consisted of nothing but wages; except that certain of the capitalists concerned have, for the sake of general convenience, had their share of profit paid them before the operation was completed. Whatever, of the ultimate product, is not profit, is repayment of wages" (1963-91 *2*: 412).

* * *

So much for the central inverse wage-profit relation. O'Brien (above …) also repeats an assertion by Blaug that "[f]rom Bailey and from Senior Mill derived the abstinence theory of profit, the generalization of the rent concept …" (1958: 167); and in Blaug's textbook we have the similar assertion that Mill's "statement of the abstinence theory of profit and the generalization of the Ricardian rent concept, [were] borrowed from Bailey and Senior"

(1985: 220; 1997: 212).[58]

As for the abstinence perspective, we certainly recall the brief formulation by Bailey noted by Seligman (Appendix A, p. ….). But *influence* is another matter. No evidence is provided to show that Mill "derived" or "borrowed" the abstinence theory from Bailey; in any event, Bailey is better seen as an "anticipator" of the theory (Bowley 1937: 144n). By contrast, an indisputable "influence" was exerted by Rae's *New Principles* (1834). "In no other book known to me" – Mill wrote in his chapter "Of the Law of the Increase of Capital" – "is so much light thrown, both from principle and history, on the causes which determine the accumulation of capital" (1963-91 *2*: 162); and to Rae himself: "I have made more use of your treatise than you appear to have been informed of, having quoted largely from it, especially from your discussion of the circumstances which influence the 'effective desire of accumulation,' a point you appear to me to have treated better than it has ever been treated before" (19 Sept. 1855; in Mill 1963-91 *14*: 240).[59]

We turn to Mill's alleged "derivation" or "borrowing" from Bailey of the generalization of Ricardo's rent concept. The Mill analysis relates presumably to his account of "cases of extra profit analogous to rent" in industry as well as agriculture such as the extra return to a patent holder allowing production at low cost in the event that demand is high enough to require the continued contribution of high-cost firms (1963-91 *2*: 494-5). And "[t]he extra gains which any producer or dealer obtains though superior talents for business, or superior business arrangements, are very much of a similar kind" (495; see also 490). Oddly enough, in his discussion of relative wages (380-99) Mill (like Adam Smith) says nothing of natural differences of "talent" or "genius" which might give rise to rent – the particular generalization specified by Bailey (above, p. …). There is every reason to believe that this sort of extension was acceptable to Mill, but its absence suggests little reliance on Bailey.

Beyond this it would be an error to exaggerate the novelty of Bailey's principle, since the generalization of the rent doctrine had already been set in motion by Ricardo himself (see above, p. …). I would add here reference to Ricardo's analysis of a contemporary case where certain *industrial* firms had their labour costs subsidized, thus generating a (discrete) increasing-cost supply schedule The appropriate margin and corresponding marginal labour cost are explicitly assumed to be governed by "the quantity of produce required," i.e. by the level of demand. Should that level be sufficiently low for the output of the subsidized firms alone to be "equal to all the wants of the community," the unsubsidized, or high-cost firms would be excluded and the equilibrium determined by the low-cost firms; but at higher demand the higher marginal cost becomes pertinent (1951-73 *1*: 73). This analysis is found in the chapter on Rent and the unstated implication of the second case for rent is self-evident; it is an exact parallel to Mill's analysis of the case of a patentee mentioned above.

Rauner sees an apparent influence of Bailey on Mill with respect to the implications for price of qualitative differences in labour (1961: 139). I see no evidence for this linkage though it cannot be ruled out. I would point out that recognition of heterogeneous labour led both Adam Smith and Ricardo to abandon the pure labour theory, even prior to allowance for capital and land, and have recourse to a *labour-cost* theory. That Smith continued to speak of "labour" immediately after allowing for heterogeneity can be explained by the fact that he proceeds to introduce capital and land and for the exposition of the general theory of cost pricing did not require to enter into the complexity of the wage-rate structure; he could assume for his purposes that when wages change they change for all labour proportionately. This is true also of Ricardo whose predominant concern was with the impact of *across-the-board* alterations in the wage. For all that, he did take James Mill to task for neglecting the implications for the labour theory of a wage change not common to all types of labour: "If a watch and a common jack altered in relative value without any more or less labour being required for the production of either of them, could we say [as Mill did say] that the proposition 'that quantity of labour determines exchangeable value' was universally true? What I call exceptions and modifications of the general rule you appear to me to say come under the general rule itself" (1951-73 *9*: 127). In any event, Bailey's charge that Ricardo refused to draw the implications of the formal recognition of heterogeneity (1825: 209-10) is unjustified.[60]

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Bowley complained that Mill, by his organization and weight of emphasis, unjustifiably played down the role of demand in price formation. Thus he made "no attempt to point out the difference in importance of demand in determining price in [the increasing-costs] case compared to the constant cost case" with the result that the theory of value is made to "look simple" (1973: 168). In this, she argued, he followed Ricardo rather than Senior (1836) and Bailey (1825), whose "efforts to explain the varied relationships between demand, cost of production and value certainly had none of that 'appearance of lucidity' which Marshall stigmatized as often 'mischievous,' nor did either of them advance 'a plain and simple doctrine.' In comparison, J. S. Mill's treatment seems deliberately to evade the complex issues, in what might be described as a resolution 'to find it easy'" (168-9).

There is a limited justification for this evaluation; for example, Mill refers on one occasion to "the operation of demand" in the general competitive case, as "the occasional disturber of value" (1963-91 *3*: 585), which neglects the variable-cost case. But here Mill did not do justice to his overall position. First, as early as 1828 in "The Nature, Origin, and Progress of Rent," Mill had defended the differential-rent theory against the strictures of those "who affect to suppose that Sir Edward West, Mr. Malthus, and Mr. Ricardo considered the cultivation of inferior land as the *cause* of a high price of corn" (1963-91 *4*: 174). Mill mentions no names but doubtless Senior 1821, Bailey 1825 and Thompson 1826 were intended. Rather, that "the cultivation of inferior soils" is the *effect* of high price "itself the effect of demand" was a doctrine "explicitly laid down by the distinguished authors previously referred to, and particularly by Mr. Ricardo." Similarly in the *Principles*: "Mr. Ricardo does not say that it is the *cultivation* of inferior land" [that is the "cause of rent on the superior"], "but the *necessity of cultivating* it from the insufficiency of the superior land to feed a growing population" (1963-91 *3*: 428). This is a perfectly justified defence of the Ricardian position with its full allowance for demand (cf. Hollander 1979: 665). The analysis of a tax imposed on a decreasing-cost industry confirms vividly the emphasis on the role of demand in long-run price formation. Once again, this episode reveals the illegitimacy of according to Bailey and Senior a perspective on demand foreign to the orthodox classicists.

Second, there is a definitional complexity to take into account, in that Mill says of products produced under increasing-cost conditions that "[t]heir value is not, correctly speaking, a scarcity value, for it is determined by the circumstances of the production of the commodity, and not by the degree of dearness necessary for keeping down the demand to the level of a limited supply" (490). But this is *not* to deny a role for demand in the increasing-cost case, Mill intending here by "scarcity value" *a totally inelastic supply* – and clarifying that where such prevails "both the land and its produce would really rise to a monopoly or scarcity price" under the pressure of demand (491). In particular: "It is also distinctly a portion of Ricardo's doctrine, that … the land of a country supposed to be of uniform fertility would, all of it, on a certain supposition, pay rent: namely, if the demand of the community required that it should all be cultivated, and cultivated beyond the point at which a further application of capital begins to be attended with a smaller proportionate return" (428).[61]

Also to be found in the secondary literature is the attribution to Bailey and Senior of a positive influence on J.S. Mill regarding "the classification of types of 'imperfect competition'" (Blaug 1958: 167).[62] On the other hand, Bowley regards Mill's emphasis on the fixed -and elastic-supply classification of monopoly and competition respectively as less sophisticated than the barriers-to-entry classification of Bailey and Senior (1973: 169).[63] Yet the fact is that Mill's analysis both of price and non-price competition turns strategically on the absence of barriers, whereas that of "monopoly" (strictly defined) and of imperfect competition requires them; in fact Mill took a major step forward by recognizing the implications for market structure of the "natural" barriers generated by scale economies (Hollander 1985: ….) And all this apart from the adjustment of prices to cost in the standard (constant-cost) case where potential entry plays a key role (…), and from the analysis of the wage-rate structure where barriers are of the essence (…). How much Mill may have learned from Bailey and Senior regarding this issue remains an open question.

VI BAILEY AND MALTHUS

Malthus is frequently classed amongst the "dissenters." There is, of course, Jevons's view of the nefarious effect of the Ricardo-Mill authority – "Economists such as Malthus and Senior, who had a far better comprehension of the true doctrines … were driven out of the field by the unity and influence of the Ricardo-Mill school" (above, p. …). Blaug refers to "the critics and outspoken opponents of Ricardo," having in mind "men like Malthus, Bailey, Scrope, Jones, Longfield, and Senior …" (above, p. …); and he says of Malthus that in the *Definitions* (1827), he "replied … to Bailey's animadversions," while "at the same time condemning the value theorizing of Ricardo, Say, Mill, and McCulloch so as to leave no doubt about his differences with the Ricardians" (1958: 56). Rauner describes Malthus's reaction in the *Definitions* to the *Critical Dissertation* as "most striking," considering that "Malthus had something in common with Bailey in being generally out of step with the Ricardians" (1961: 118); but he goes on to explain that "Malthus actually proved just as inhospitable to Bailey's message as the others," though not because Malthus and the Ricardians were in the same theoretical boat" but because Malthus founded his own measure of value "on a conception of value dependent on causes of an absolute and inherent nature."

I would say that while Rauner is perfectly correct to focus on Malthus's defence of an "absolute" measure in responding to Bailey in Chapter 8 of his *Definitions*, he underplays the degree of common ground between Malthus and Ricardo. And so *a fortiori* does Blaug in the above-cited reference. McCulloch in brief, was perfectly correct when in his *Encyclopaedia Britannica* contribution of 1823, commenting upon Malthus's *Principles* of 1820, he observed that while "[s]ome of the subordinate doctrines respecting value advanced by Mr. Ricardo in the first and second editions of his *Principles of Political Economy and Taxation*, were opposed by Mr. Malthus in his recent publication," yet "Mr. Malthus does not attempt to invalidate the leading principles established by Mr. Ricardo; and the alterations and corrections which the latter has made in the third edition of his work, have gone far to remove the objections of Mr. Malthus" (1823: 135). That this is indeed so is clearly revealed not only by Malthus's total rejection of Bailey's position on "absolute" value, but also by his adoption of the Ricardian inverse wage-profit relation in the growth context in terms of his own labour-commanded measure of absolute value.

Malthus found particularly objectionable Bailey's belief that "the only use of a measure of value, in the sense of a medium of comparison, is between commodities existing at the same time," no relation being conceivable between the value of commodities over time (1986 [1827] *8*: 75f., citing Bailey 1825: 117).[64] In fact, those who made such comparisons did so with two possible ends in mind: "They obviously mean either to compare the esteem in which a commodity was held at one period with the esteem in which it was held at another, founded on the state of its supply compared with the demand, and ordinarily on its costs of production; or to compare the general power of purchasing which a commodity possessed at one period with its general power of purchasing at another period" (77; also 81). By this reference to "esteem" Malthus did not intend "utility"; esteem is indicated by the *cost price* of a commodity and it made sense to compare cost price in period t with cost price in period t+1, both expressed in terms of an invariable measure, or a commodity whose cost price – labour and profits – can be presumed *not* to have changed.

Over short periods money served both possible functions well enough: "If the money-price of corn has risen this year to double what it was in the last, I can infer, with almost absolute certainty, that corn is held in much higher estimation than it was. I can [also] be quite sure that … it will command nearly double the quantity of all other commodities which are in their natural and ordinary state, and have not been essentially affected by the causes which have operated upon the price of corn" (77-8).[65] Subsequently, the notion of general purchasing power is elaborated. Notwithstanding the assertions in the *Critical Dissertation*, it was universally recognized

> that to estimate the relation of commodities, at different periods, in regard to their general power of purchasing, and particularly the power of purchasing labour, the main instrument of production, is a most important function …; and that, for moderately short periods, money *does* perform this function with very tolerable accuracy. And for this specific reason; that, for moderately short periods, a given quantity of money will represent, more nearly than any other commodity, the general power of purchasing, and particularly the power of setting labour in motion, so vital to the capitalist (79-80).

The advantage of the precious metals in the short period derived "from their great desirability, and the consequent uniformity of their supply in the market" (80). Estimates of profitability made in terms (say) of *corn* could be disastrously misleading:

> Hops, or corn … will measure the relative values of commodities at the same time and place; but let the author or reader attempt to estimate the profits of a capitalist in hops or corn, by the excess of the value of his advances above the value of his returns so estimated, and he will soon be bewildered. If a very plentiful year of corn were to succeed to a comparatively scarce one, the farmer, estimating both his outgoings and incomings in the corn of each year, might appear to gain above fifty per cent, while, in reality, he might have lost, and might not be able, without trenching on his capital, to employ as many men on his farm as the year before.

At the same time, following Adam Smith, Malthus allowed that the precious metals will not serve over "very long" periods.

A striking feature of the response to Bailey is Malthus's *defence of Ricardo*. His differences with Ricardo are represented as differences of detail, not of principle; and the defence is prologue to a justification of his own measure. His primary concern at this stage was simply to undermine Bailey's contention that the Ricardo measurement procedure – entailing a commodity produced by a constant labour input – conflicted with the notion of *value in exchange*:

> "Suppose," Bailey observes, "that we had such a commodity as Mr. Ricardo requires for a standard; suppose, for instance, all commodities to be produced by labour alone, and silver to be produced by an invariable quantity of labour. In this case, silver would be, according to Mr. Ricardo, a perfect measure of value. But in what sense? What is the function performed? Silver, even if invariable in its producing labour, will tell us nothing of the value of other commodities. Their relations in value to silver, or their prices, must be ascertained in the usual way; and, when ascertained, we shall certainly know the values of commodities in relation to each other; but in all this, there is no assistance derived from the circumstances of the producing labour of silver being a constant quantity" (82; citing Bailey 1825: 122).

Malthus maintained in his defence of Ricardo that, given the foregoing assumptions, Ricardo's silver served better than real silver over secular periods as an index of general purchasing power; for it "would be secured from that greatest source of variation in the general power of purchasing occasioned by the variation in its own producing labour; and an ounce of such silver would command much more nearly the same quantity of labour and commodities, for four or five hundred years together, than an ounce of silver derived from mines of greatly varying fertility." The same held good of the function of a measure in indicating changes in "estimation" over time of any *given* commodity – an allusion to cost price: "[Silver] would express at once the relative sacrifice which people were willing to make, in order to obtain such a commodity at … different periods; the relative conditions of the supply, or elementary costs of production, of such commodity at these periods; and the proportion of the produce to the producer, or the relative state of the demand, as compared with the supply of such commodity at these different periods" (83). From an example that follows, it emerges again that, by "esteem," Malthus refers essentially to the *cost price* of the commodity in question, doubtless because its cost price reflected the conditions of supply in the sense – as he had just put it – of the "sacrifice which people were willing to make in order to obtain it":

> It would not merely indicate, as the author states, in which of two commodities varying in relation to each other, at different periods, the variation had taken place [Bailey 1825: 121]; but it would express the precise amount of the variation; that is, if it appeared by documents that the price of a yard of cloth of a certain quality four hundred years ago was twenty shillings, and its price at present was only ten shillings, it would follow, that the estimation in which it was held, or its value, had fallen one-half; because, as all commodities are, by the supposition, produced by labour alone, the sacrifice with which it could be obtained, the necessary conditions of its supply, or the elementary costs of its production had diminished one half.

Malthus adds that variations of the Ricardian-money price of X would also show precisely variations of X's command over other commodities "which had not altered in the conditions of their supply, or the elementary costs of production."

Even accepting the labour-theory assumptions on which the Ricardo measure is based, there might occur changes in labour productivity throughout the economy, so that Ricardo's silver could admittedly not provide "an *accurate* measure": "as the producing labour of many commodities may vary in the progress of society, it is quite impossible that the same quantity of any one object can, through successive periods, represent the same general power of purchasing" (83-4). This led Malthus to propose that it were better "to confine the term value of a commodity, when used generally, to the estimation in which it is held, determined by the state of the supply compared with the demand, and ordinarily by the elementary costs of production, rather than to its general power of purchasing" (84).[66]

Malthus commended Ricardo's device, albeit that it only served as a precise measure of purchasing power if no changes occurred in labour productivity in the case of commodities other than the one under investigation; one might yet refer to a doubling in X's "value" when labour productivity in X halves, although X's general purchasing power would *not* double in the event of productivity changes in other products (85). Smith too was right, using his standard of labour commanded, to talk of a rise in the secular "price" of cattle, though other commodities may rise simultaneously to an ever greater degree, reducing the general purchasing power of cattle. Even Bailey, in dealing with "the causes of value," found himself obliged "to estimate the causes affecting one commodity as distinct from the causes affecting another; although, according to his previous doctrine" – his formal insistence on relativities – "the value of one commodity might be just as powerfully affected by causes operating upon another commodity as by causes operating upon itself." Bailey had to concede "that to confine the term value … to the mere relation of any one commodity to any other, is to render it pre-eminently futile and useless" (86).

* * *

In all this, Malthus drew on both Ricardo and Smith for support of the concept of *absolute value* – pre-eminently the cost conditions affecting a particular commodity – against Bailey's purely relativist position, although of course the absolute-value concept entails relativity in the use to which it is put. We come now to his comments on Bailey's chapter "On the Measure of Value Proposed by Mr. Malthus."

Malthus pointed to the fallacy of three of its presumptions: (1) that "unless labour always exchanges for the same quantity of other things, its value cannot be invariable, and, consequently, the very supposition of its being, at one and the same time, invariable, and capable of measuring the variations of other commodities, involves a contradiction" (Bailey 1825: 140); (2) "that to term anything immutable in value, amidst the fluctuations of other things, implies that its value at one time may be compared with its value at another time, without reference to any other commodity, which is absurd, value denoting a relation between two things at the same time"; and (3) "that in no sense could an object of invariable value be of any peculiar service in the capacity of a measure." Presumptions (2) and (3) were already shown to be unacceptable in Malthus's defence of Ricardo.[67] As for (1), Malthus pointed out that the implication was ludicrous – namely, that labour rises or falls as a given portion of it will exchange for a greater or less quantity of silk or any other commodity, however unconnected with the labourer's wants" (87).

With these preliminaries out of the way, Malthus came to a defence of his *Measure of Value* and its adoption of Smith's *labour-commanded* measure of value. As for its famous table – described by Bailey as "one of the most curious productions in the whole range of political economy" (1825: 142) – that was designed "further to illustrate the subject, and bring into one view the results of different suppositions respecting the varying fertility of the soil and the varying quantity of corn paid to the labourer …" (1986 [1827] *8*: 88). He rejected Bailey's objection to the constant value of labour under these varying circumstances, that "in the same way any article might be proved to be of invariable value, for instance, ten yards of cloth. For whether we gave £5 or £10, for the ten yards, the sum given would always be equal in value to the cloth for which it was paid, or, in other words, of invariable value in relation to cloth. But that which is given for a thing of invariable value must itself be invariable, whence the ten yards of cloth must be of invariable value" (1825: 145). This involved "either a most singular want of discrimination, or a purposed disregard of the premises on which the table is founded." These premises, of course, relate to the determinants of *cost price*:

> … that the natural and necessary conditions of the supply of the great mass of commodities, or, in other words, their elementary costs of production, are, the accumulated and immediate labour necessary to produce them, with the addition of the ordinary profits upon the whole advances for the time they have been advanced; and that the ordinary values of commodities at different periods, according to the most customary application of the term, are determined by the elementary costs of production at those periods, that is, by the labour and profits worked up in them.

From these premises it followed that *labour alone* served as measure since no *commodity* could be said to constitute "the universal and the main instrument of production" or "the natural and necessary condition of the supply of all commodities" or one of the "elementary costs of production"; while no one had ever estimated the value of commodities over time "by the different quantities of cloth and profits worked up on them."[68] A note is attached protesting at the common charge that he had arbitrarily selected labour as measure (89n).

Malthus, furthermore, refuted Bailey's objection that the constant value of the wage irrespective of its quantitative magnitude or its "elementary cost" reflected a mere truism – a criticism also made by Ricardo and the younger Mill. That constancy, he insisted, was rather a *deduction* from the preliminary proposition that the labour commanded by a unit of commodity X "represented" precisely the embodied labour therein plus profits on these advances, that is, its elementary costs. In substance, Malthus sought first to justify his own version of the cost theory of value, and his position that labour commanded measures precisely such cost; and on this basis to give a substantive *interpretation* to the definitional constancy of the value of labour:

> It would no doubt, be an absurd tautological truism merely to state, that the varying wages of a given quantity of labour will always command the same quantity of labour; but if it were previously shown that the quantity of labour which a commodity commands represents exactly the quantity of labour worked up in it, with the profits upon the advances, and does therefore really represent and measure those natural and necessary conditions of the supply, those elementary costs of production which determine value; then the truism that the varying wages of a given quantity of labour always command the same quantity of labour, must necessarily involve the important truth, that the elementary costs of producing the varying wages of a given quantity of labour must always be the same (89).

Malthus did not reproduce the full demonstration in his *Measure of Value* that the labour commanded provides the precise measure of labour embodied plus profits.[69] But assuming that proof to hold good, it followed that the "truistic" constancy of the value of (the labour commanded by) the wage, reflected the constant *sum* of labour embodied plus profits in the wage, such that any secular increase in the labour embodied in the wage would not – as Ricardo had it – imply that the wage was of higher value since that increase is precisely compensated by a reduced profit component:

> Mr. Ricardo had stated repeatedly, that the value of the wages of labour must necessarily rise in the progress of society. He builds, indeed, the whole foundation of this theory of profits on the rise and fall of the value of labour. The table shows that, if we estimate the value of wages by the labour worked up in them, that is, by one element of value, Mr. Ricardo is right, and the value of wages will really rise as poorer land is taken into cultivation; but that, if we estimate the value of wages by the

> labour and *profits* worked up in them, that is, by the two elementary ingredients of value, the value of wages will remain the same (89-90).[70]

Malthus, moreover, had in mind a criticism of versions of cost price which entailed reference to "labour and capital" rather than "labour and profits." Capital included both wage goods and real capital goods which are reducible to labour. In fact, "excluding rent and taxes, the only elements concerned in regulating the value of commodities are labour and profits, including, of course, in such labour, the labour worked up in the raw materials, and that portion of the machinery worn out in the production; and including in the profits, the profits of the producers of the raw materials and machinery" (92).

Malthus proceeded to a bit of personal history in countering Bailey's charge that "the table yields not a single new or important truth" (Bailey 1825: 150). Allowing that the table *per se* did not yield any new truth, Malthus insisted that *The Measure of Value* as a whole – on which the table turned – certainly did, since "the view I there took of the subject of value, and of the reasons for adopting labour as its measure, was, in many of its parts, quite new to me a year before the publication" (1986 [1827] *8*: 90).

The first novelty claimed was recognition that labour commanded measured labour embodied-cum-profits, transforming an original concern with the index as *a measure of general purchasing power* to an appreciation of its efficacy as *a measure of production costs*:

> … I had nowhere seen it stated, that the ordinary quantity of labour which a commodity will command must represent and measure the quantity of labour worked up in it, with the addition of profits …. I had before considered labour as the most general and the most important of all the objects given in exchange, and therefore, by far the best measure of the general power of purchasing of any one object; but after I became aware that, by representing the labour worked up in a commodity, with the

> profits, it represented the natural and necessary conditions of its supply, or the elementary costs of its production, its importance, as a measure, appeared to me very greatly increased.[71]

Malthus also, of course, claimed originality for the proposition relating to the constant costs of producing the wage – costs determined like those of any product: "Secondly; I had nowhere seen it stated that, however the fertility of the soil might vary, the elementary costs of producing the wages of a given quantity of labour must always necessarily be the same." This alludes to the property required of a measure expressed in 1819 by Torrens – in a formulation that delighted Bailey (see Appendix C) – which Torrens believed could not be fulfilled:

> Colonel Torrens, in adverting to a measure of value, says, "In the first place, exchangeable value is determined by the cost of production; and there is no commodity, the cost of producing which is not liable to perpetual fluctuation. In the second place, even if a commodity could be found which always required the same expenditure for its production, it would not, therefore, be of invariable exchangeable value, so as to serve as a standard for measuring the value of other things. Exchangeable value is determined, not by the absolute, but by the relative, cost of production" (1819: 56; cited by Malthus 1986 [1827] *8*: 91).

Malthus thought of himself as meeting a challenge, provided that in dealing with variations in X's command over Y or Z, one held constant the "causes" operating on X. (The *intrinsic* causes of the *Principles*.) But the cost conditions of producing the wage were necessarily constant, so that labour commanded constituted the sought-after X: "In this case it is obvious that, according to Colonel Torrens, we should possess a measure of value if we could find an object the cost of producing which was always the same." And it was shown in his *Measure* *of Value* "that the conditions of the supply of labour, or the elementary costs of producing the corn wages of a given number of men, estimated just in the same way as we should estimate the elementary costs of producing cloth, linens, hardware, or any other commodity, must of necessity always remain the same." These "two necessary qualities of the labour which commodities will *ordinarily* command" – we see Malthus's preoccupation with equilibrium or long-run positions – were "practically new" to him, and made him "view labour as a measure of value, so far approaching towards accuracy, considering the nature of the subject, that it might fairly be called a standard."

* * *

So much for the wholesale rejection by Malthus of the Bailey – or Bailey-Torrens – attack on the notion of a measure of absolute value. This rejection reinforced Malthus's long-standing support for Ricardo's inverse wage-profit relation, as we shall now see.

As for Malthus's adherence to the inverse theorem that is nicely spelled out in his *Quarterly Review* article for 1824 treating McCulloch's *Encyclopaedia Britannica* contribution of the previous year: "Of all the truths which Mr Ricardo has established, one of the most useful and important is, that profits are determined by the proportion of the whole produce which goes to labour. It is, indeed, a direct corollary from the proposition, that the value of commodities is resolvable into wages and profits; but its simplicity and apparent obviousness do not detract from its utility" (1963 [1824]: 189). Similarly: "We fully agree with the author of the present treatise, that when it is said that profits depend on wages, they must not be understood to depend on wages estimated in money, in corn, or in any other commodity, but on proportional wages, that is, on the share of the commodities produced by the labourer, or of their value, which is given to the labourer" (199). That Malthus accepted the substance of Ricardo's position is also confirmed by a note attached to his *Measure of*

Value (1823). Malthus had observed in the text that "it may be laid down … as a general proposition, liable to no exception, that when the value of any produce can be resolved into labour and profits, then as the *proportion* of such produce which goes to labour increases, the proportion which goes to profits must decrease in the same degree, and as the *proportion* which goes to labour decreases, the proportion which goes to profits must increase in the same degree …" (1957 [1823]: 28-9). To this he added:

> This proposition is essentially the same as that which is very clearly and ably expressed by Mr Ricardo in his chapter On Profits in the following terms: "in all countries and at all times profits depend on the quantity of labour requisite to provide necessaries for the labourers on that land, or with that capital which yields no rent"; a proposition which though incomplete in reference to the ultimate causes of the variations of profits, contains a most important truth. From this truth the legitimate deduction appears to me to be, the constant value of labour; but Mr Ricardo has formed his system on a deduction exactly opposite to it. He has, however, in my opinion, amply compensated for the errors into which he may have fallen, by furnishing us, at the same time, not only with the means of their refutation, but the means of improving the science of Political Economy (29).

The criticisms alluded to in the foregoing passage relate to Ricardo's (supposed) failure to deal satisfactorily with real (basket) wage-rate determination and to the issue of the appropriate *measure of value*, Malthus maintaining that his measure served better than Ricardo's. But one outstanding fact remains – Malthus's insistence that by the relationship which he envisaged between the constancy of value of a given command over labour and the proportionate shares he was attempting to convey precisely the same concept as Ricardo himself.

These references are to observations made before the appearance of the *Critical Dissertation*. But there is nothing to suggest that Malthus ever abandoned this position. Indeed, new support is offered for the inverse theorem in proportionate terms in the modifications introduced into the projected second edition of the *Principles*: "whether the productive powers of labour are great or small, increasing, stationary, of diminishing … profits depend upon the proportion of the value of the whole produce, which goes to pay the wages of the labour employed to obtain them" (1836: 267); and "if labour be the measure of value, which I trust has been shewn, this is the same as saying that profits are determined by the proportion of the value of the produce which goes to pay the labour which has obtained it (291).[72]

It also emerges from all this that Bailey's insistence that the inverse relation only applies *given* labour productivity (above …) left no impression whatsoever on Malthus. This is further confirmed by his adherence to the "shared incidence" principle whereby the profit rate declines during growth subject to increasing land scarcity despite a contemporaneous decline in the commodity wage, since *proportionate* wages necessarily rise. On Malthus's own reading, linguistic differences alone distinguished his own from Ricardo's formulations: "When a given portion of labour and capital [1836: a given value of capital] yields smaller returns whether on new land or old, the loss is generally divided between the labourers and capitalists, and wages and profits fall at the same time. This is quite contrary to Mr. Ricardo's language. But the wages we refer to are totally different. He speaks of the cost [1836: mere labour cost] of producing the necessaries of the labourer; I speak of the necessaries themselves" (Malthus, 1820: 154; 1836: 152).[73]

VII CONCLUDING REMARKS

Bailey's formal crusade against Ricardo faced considerably more hostility than Seligman, Schumpeter and other commentators imagine, even amongst the so-called "dissenters" – Malthus himself, so frequently classified uncritically as such, was positively hostile towards Bailey[74] – and *a fortiori* amongst Ricardo's "votaries" including McCulloch who some moderns imagine to have been non- or even anti-Ricardian. The Seligman-Schumpeter view that the orthodox Ricardians had stifled the criticism, it also follows from our demonstration, is unjustified; so too is Blaug's view that the orthodox "brushed aside" the criticism. Neither position can account for the strong defence of Ricardo by Malthus, and the acceptance by Bailey and other dissenters of so much of the Ricardian doctrine.

Our results thus support James Mill's judgment that Bailey's analysis of the "nature of value" "makes profession, or rather ostentation, and parade, of being a controversy with Mr. Ricardo," while it contained nothing of substance with which Ricardo would not have assented (above, p. …); and it provides the justification for Halévy's judgment that "all the elements of [Bailey's] criticism are borrowed from Ricardo's book" (above, p…). Yet caution is advised in this regard, for to "borrow" might be understood in the pejorative sense of blatant plagiarism, though one cannot be sure that Halévy intended to be so understood. And it may not be a justified charge, since there is always the possibility that Bailey did not read Ricardo carefully enough to appreciate the richness of the *Principles*. Fortunately, we can to some extent go beyond surmise regarding these difficult matters; for there are some *specific* indications in our Section II regarding the character of the Bailey-Ricardo relation. We shall proceed for convenience in terms of Seligman's attributions to Bailey laid out in Appendix A, though keeping in mind some features Seligman neglected to mention.

As for the charge that an invariable measure of *exchange value* is an inherently illogical conception, Bailey himself recognized in *Critical Dissertation* that Ricardo had taken the same view, and pointed this out in responding to his *Westminster* reviewer (James Mill) (above, pp. ….). But in this regard Bailey does not emerge smelling of roses, for he takes word-mindedness to an extreme by complaining that Ricardo, concerned with the isolation of the source of observed changes in exchange ratios, ought not to have *described* such a concern as relating to the "measurement" of value (above, p…), in effect deflecting attention to a trivial matter of classification, while admitting the "truth" of Ricardo's concerns.

A related issue of central importance (not mentioned by Seligman) is Bailey's rejection of Adam Smith's proposition that a general wage increase is passed on in higher prices on the basis of "*the principles already advanced*," namely that since *all* capitalists are subject to the same disturbance no single capitalist can raise the rate of exchange of his commodity relative to any other (above, p. …). Now this result is precisely what Ricardo established so conspicuously in the first chapter of his *Principles*, and it is difficult to imagine that Bailey could have been unaware of, or could have forgotten, this fact. (He would, in any event, have been reminded by De Quincey 1970 [1824]: 62-3.)

To have spelled out this source would have been to admit that "the principles already advanced" were in fact Ricardo's, and one might be inclined to suggest that it was for this reason that Bailey remained silent. Yet the matter is more complex. The Ricardian objections to Smith turn on the contrast drawn between disturbances such as a general wage change affecting all products uniformly and those affecting products differentially, the latter including wage changes pertinent to specific categories of labour (or specific taxes) or to general wage changes which have a differential impact because of non-uniform factor ratios, which Ricardo himself reduced to differential investment *times*. And in fact *Bailey explicitly recognized that Ricardo had allowed for these modifications to a pure labour theory* (above, pp. …). Plagiarism thus does not enter the picture, which fact must modify the impression left by the discussion of Smith. And yet Bailey continued to leave an impression of a breakaway from Ricardo even in the present context – *vide*, for example, his unjustified complaint that only in his Index did Ricardo qualify the general rule that products exchanged in strict proportion to relative labor inputs. And, similarly, we have Bailey's formal denial that goods exchange according to relative labor inputs in the increasing-cost case. I refer here to his focus on costs at the *margin*, the labour embodiment in *intra-marginal* units of corn falling short (pp. …). Now Bailey spells out that the marginal-cost principle itself is pure Ricardo – "the value of corn in general is determined, on his own principles, by the quantity of labour required to reduce corn on the worst soils in cultivation, and not by the quantity of its own producing labour" (above, p. …), – and he even praises Ricardo's expression that value is not *caused* but *regulated* by marginal costs (above p. …). Yet, notwithstanding, he directs the argument against the labour theory *as if* he were thereby striking out into virgin territory. There is though a second device. Thus at one point Bailey concedes that Ricardo "indeed, explicitly allows the influence of other causes" than labour quantity acting on relative value, but then deflects the criticism *to apply to Ricardo's followers* (pp. …).

We turn to rent doctrine, first that rent emerges as a scarcity payment even should "all the land under cultivation [be] of equal fertility "(above p. …). Did Bailey not then realize that Ricardo, had spelled this out explicitly in his Chapter 2 as well as the proposition that rent under certain conditions might be paid in *industry* (above, p. …)? One cannot tell in this particular case whether Bailey was simply unaware that he was expounding Ricardian principles – for which there is little excuse, although he would be in good company – or simply chose to remain silent.

Of particular interest is Bailey's insistence on what Seligman refers with admiration to something akin to, or consistent with, "the modern theory of the economy of high-wages," namely that if output is rising, a high wage is consistent with a high profit rate, the inverse profit-wage relation holding good only with output held constant (above, pp. …). Here Bailey certainly claims originality, though he is in fact expounding pure Ricardian doctrine (pp. ….). Now Ricardo's efforts were directed at establishing that it is the *proportionate* share of wages in the (marginal) product and not the *absolute* wage that mattered in profit-rate determination, particularly in establishing the inverse wage-profit theorem; and we know that Bailey recognized the validity of the fundamental theorem once assuming Ricardo's terminological usage is adopted (above, p…). It might then appear unlikely that he was unaware of the obvious implication for simultaneous increase or decease in *absolute* returns depending on alternative assumptions regarding output. On the other hand, one soon learns that nothing can be taken for granted in intellectual history; so we must allow the possibility that he *believed* himself to be stating a novel proposition absent from the Ricardian canon. That, at least, is the most favourable construction to place on the episode.

Without question, the secondary literature – Seligman included – view Bailey as an anti-Ricardo "dissident."[75] We have shown the matter to be far more complex. Though Bailey frequently sought – somewhat in the manner of J.-B. Say (see Hollander 2005) – to leave an impression of hostility towards the canon, when one attends to the details of the texts it emerges that he did appreciate that most of his major propositions were already to be found in Ricardo's *Principles*. Indeed, his claims to fame in some contexts – including the perception of value as implying a "feeling or state of mind" (see p. …) – are surprisingly muted.

APPENDIX A

EXTRACT FROM SELIGMAN 1903: 353-5

The following extract contains Seligman's full summary of Bailey's *Critical Dissertation*:

> Since value is essentially relative in nature, Bailey objects to Ricardo's attempt to discover a commodity of invariable value (1825:10). To Bailey, Ricardo's "contradiction involved in affirming the stationary or invariable value of an object amidst the variations of other things, is as direct and palpable" as to constitute a "strange and manifest error (16; cf. 30). Malthus also is not free from the same mistake. Furthermore, Bailey characterizes the alleged distinction between real and nominal value as "arbitrary and incapable of being turned to any use" (38). Above all, he objects to the labour theory of the cause and measure of value. Value according to Bailey, although often spoken of as a quality of external objects, really implies a "feeling or state of mind" (180). This state of mind is a result of many circumstances, among which, indeed, cost of production is to be included as an important, though not the sole factor. But even if we confine our attention to that class of commodities which is susceptible of increase and subject to the law of competition where the influence of cost of production is so great, it is not true that cost of production is resolvable into mere labour expended. In the first place, it overlooks the co-operation of capital, which cannot be explained away by calling capital "accumulated or hoarded labour" (220). "This is at best an aukward mode of expression, which can answer no good purpose. When we accumulate we add one thing to another, and it is essential to the process, that both should remain in existence. But labour, consisting in the mere exertion of muscular power, or in the equally evanescent motions of the

brain, continually perishes in detail, and therefore admits of no accumulation."

Furthermore, apart from this, labour cannot be considered as uniform. Bailey asks: "What should we think of an assertion that coats are to each other in value as the quantities of cloth contained in them, or that their comparative value depends exclusively on the quantities of cloth required to make them" (221).

Above all, the exclusive stress laid upon labour neglects entirely the function of time in economic life. Bailey tells us in almost the same language as Böhm-Bawerk: "We generally prefer a present pleasure or enjoyment to a distant one, not superior to it in other respects" (218). He enters into a consideration of the importance of time in its effects on capital. Time, like labour, is a "consideration which may influence both buyers and sellers," and time cannot be resolved into labour (219).

So that even in the case of continuous production under competitive conditions, value is not resolvable into labour. But there still remain two other great classes of commodities, those subject in part or in whole to the law of monopoly, and those subject to the law of diminishing returns (185). This leads Bailey to a consideration of the law of rent, in the course of which he asserts the analogy between land rents and labour rents: "The extraordinary profit out of which rent arises is analogous to the extraordinary remuneration which an artizan of more than common dexterity obtains beyond the wages given to the workman of ordinary skill…. In the one case this monopoly is bounded by the existence of inferior soils, in the other of inferior degrees of dexterity" (196-7).

Here we have the first attempt to generalise the doctrine of rent, an attempt which has usually been associated in English, at all events, with Senior. Over a quarter of a century before Mangoldt and Schäffle, we thus find in Bailey this broadening of the rent concept. Furthermore, Bailey objects to the statement that "rent does not enter into price" as at the best vague and indefinite, as "one that ought to be banished from the science" (198).

Finally, it must be noticed that Bailey is the first to put his finger on the real fallacy of the doctrine that wages and profits must vary inversely. This error consists in neglecting the fact that "the value of labour does not entirely depend on the proportion of the whole produce which is given to the labourers in exchange for their labour, but also on the productiveness of labour" (63). "The proposition, that when labour rises profits must fall, is true only when its rise is not owing to an increase in its productive powers" (64). . . . "If the productive power of labour be augmented, that is, if the same labour produce more commodities in the same time, labour may rise in value without a fall, nay, even with a rise of profits" (66). This, it will be seen, virtually contains the whole of the modern theory of the economy of high wages.

APPENDIX B

SAMUEL BAILEY AND TWO ANONYMOUS CONTRIBUTIONS OF 1821

The authorship of *Observations on Certain Verbal Disputes in Political Economy* (1821) remains to be ascertained. Marx noticed similarities between this pamphlet and Bailey's *Critical Dissertation* and charged Bailey with plagiarism (1861-63: 299, 312, 347). Bailey himself feared he might be subjected to such accusation: "This Book exhibits some striking coincidences with my Treatise on Value – so striking that I might possibly incur the charge of plagiarism if any one compared the two works. The truth is however that I did not see this pamphlet till my own book was published" (Dennis 1973: 17, citing Bailey's private notes, held in the University of Edinburgh, undated). Dennis gives cogent reasons to accept Bailey's disclaimer (18).

The Cass edition of Bailey's works (1967), however, includes the pamphlet and Sowell 1970 makes out a positive case for Bailey as author, which applies also to the *Inquiry into Those Principles Respecting the Nature of Demand and the Necessity of Consumption Lately Advocated by Mr. Malthus*: "Comparing the *Observations* and the *Inquiry* with other works known to have been written by Samuel Bailey, there is a remarkable range of similarities and no significant differences. These similarities may be grouped in four broad categories: (1) discussions of the role and importance of words in economics, (2) value theory, (3) methodology, and (4) opinions of economics and of particular economists. There are also certain stylistic similarities between these two anonymous works and Bailey's other writings" (1970: 402; also 1972: 131-4). Sowell 2006 reaffirms this attribution with respect both to *Verbal Disputes* (2006: 233n 89: 234 n91, 102: 239 n26; 247nn 124, 129; 248 n143) and to the *Inquiry* (141; 216n 61; 230 n44; 248n 137; 267 nn50, 51; 269n 81). Unfortunately, Sowell does not take into account either the evidence by Dennis entailing Bailey's private denial of plagiarism and *a fortiori* of authorship, or the case against Bailey as author convincingly elaborated in O'Brien and Darnell 1982: 86-9. (O'Brien and Darnell propose Brougham as probable author.) Rauner had, in any event, long before cast doubt on Bailey as author of *Verbal Disputes* (1961: 89 n43).

More challenging is the *Inquiry*. As mentioned, Sowell 1970, 2006 make out a case for Bailey. So too in this case do O'Brien and Darnell (1982, Chapter 5). But their conclusion turns on an application of a statistical analysis (91-107), called into question (Stigler 1983). O'Brien and Darnell write of a "widespread belief that Bailey was the author of this work [the *Inquiry*]" (1982: 90), but this surely is to exaggerate. Rauner 1961, 1987 make no such attribution and – like *Verbal Disputes* – it remains unattributed in the Kress and Goldsmiths' collections. Seligman himself made no attempt at attribution. Schumpeter takes no note at all of the *Inquiry*; and while *Verbal Disputes* is described as a "main contribution" it is not ascribed (1954: 599n). As for Bailey: "The only publication of his that needs to be mentioned is *A Critical Dissertation* …" (486n).[76]

There are two further considerations pointing away from Bailey's authorship of the *Inquiry*. First, Dennis contrasts Bailey's denial in his notebooks of authorship with respect to the *Verbal Disputes* with the (apparent) absence of references to the *Inquiry*: "the presumption of Bailey's authorship of the latter should thereby be weakened inasmuch as the textual linkages between the two pamphlets of 1821 are at least as strong as those between the *Inquiry* and Bailey's accredited works" (1973: 17). Second, Sowell – who argues for Bailey's authorship of both 1821 pamphlets – himself allows that the fact that the *Verbal Dispute*s and the *Inquiry* "failed to appear in any of [the lists of selected earlier works which appeared in Bailey's later works] presents a difficulty" (1970: 408).

The present writer at one time accepted uncritically the attribution of the *Inquiry* to

Bailey (Hollander 1998: 261). But though, in the light of the foregoing complexities, it now seems unlikely that the *Inquiry* is by Bailey, it is of high importance that the quest for authorship continue since Seligman was unjustified in describing the pamphlet – along with *Verbal Disputes* – as "of minor importance" (1903: 351).[77] As a conspicuous instance of its significance, we find expressed in the clearest terms the simultaneous fall in both wages and profits characterizing the "canonical" growth model, the shared incidence attributable to increasingly scarce land and a rising corn price.

> Supposing the degree of inclination to save and gain on the part of the capitalist, and to labour and to increase on the part of the labourer, to remain unaltered, or both to increase in equal proportions, the effect of increased cultivation in raising permanently the price of corn, would be borne partly by the labourer and partly by the employer: the labourer's [money] wages would not be raised in fully equal proportion with the price of corn, nor would they, on the other hand, remain quite stationary: profits would indeed fall, but the amount of the labourer's command of food would also be somewhat abridged (1821: 25).

The author further clarifies that the profit rate varies with *proportionate* wages; simultaneously high (low) profit and wage rates are quite consistent in conditions of high (low) productivity:

> Now where a little labour will produce a great deal, especially where it will produce a great deal of *food* in one country, compared to what it will in another, it is possible, that the *proportion* in which the produce is divided may be, in the former, more favourable to the employer than the latter, and, in the sense, profits may be said to be higher; and yet what the labourer gets may be more of absolute subsistence and enjoyment, in proportion to the quantity of trouble he takes, in the former than in the

> latter: and in *that* sense, *wages* may be said to be higher. This is, probably, the case in America (100).

Although the author of the *Inquiry* adopted a land-scarcity explanation of profit-rate trends and rejected Smithian “competition of capitals” (9f, 13f, 18), he unfortunately ignored *Ricardo’s* contribution to the canonical model wherein the real wage is *necessarily* above the subsistence wage throughout the expansion process. Thus, he cites first Ricardo’s chapter on Profits: “There cannot be accumulated in a country any amount of capital which cannot be employed *productively* … until wages rise so high in *consequence* of the rise of necessaries, and so little consequently remains for the profits of stock, that the motive for accumulation ceases” (19), and allows only that Ricardo recognized “temporary” increases in the wage, which reduce the profit rate, but have a tendency to restore themselves.

APPENDIX C

A NOTE ON BAILEY'S OBLIGATIONS

The matter of Bailey's debt to Ricardo has been touched on in our concluding section. Other candidates must include Ricardo's avowed students – his "votaries" – pre-eminently perhaps De Quincey whose *Dialogues* 1824 discusses the character of *relative*, as distinct from *absolute,* value from which Bailey might have benefited (e.g. 1970 [1824]: 80), and elaborates the proposition that a general wage increase cannot be passed on by producers to the extent that all employers are affected equally (62-3). There is too McCulloch's strong rejection of an invariable measure of exchangeable value which also appeared in 1824: "If you are to measure the value of any one commodity, you must measure it by the agency of some other commodity possessed of value, just as when you measure length or capacity the measure which you use must itself have length or capacity. But as the circumstances under which every commodity is produced are always liable to perpetual change, it is clear to demonstration that none can be selected which can ever form an invariable measure or standard of value; though, as some commodities are much less variable than others, they may be used as rude approximations" (McCulloch 1824: 114). (Cf. McCulloch 1825: 212-14 for a corresponding formulation made *after* the appearance of the *Dissertation*, and which pays some tribute to Bailey (above, note 48). It is even conceivable that Bailey drew from J.S. Mill's "[v]alue is a relative term …" (above, p. …), for Mill's formulation appeared in the January 1825 issue of the *Westminster Review* and the *Critical Dissertation* was only published in June.

We turn to predecessors noted by Bailey himself – apart from the anonymous *Verbal Disputes* (see APPENDIX B). These include Lauderdale, whose *Inquiry* (1804) – using the description by Read (above, p. …n) – "reduce[s] the idea of value to a mere relation of commodities between themselves," and who is cited approvingly by Bailey: "We cannot express value, or a variation of value, without a comparison of two commodities" (Lauderdale, 2nd ed. 1819: 19, cited 1825: 4; 1st ed. 1804: 21). And in *A Letter to a Political Economist* we find: "The impossibility of a measure of invariable value has been … maintained by the Earl of Lauderdale, Col. Torrens, and others …" (1826: 14). (In this context, it will be recalled, Bailey in fact also cites *Ricardo* on the "impossibility of finding any commodity of invariable value," reminding James Mill that this had been explicitly recognized in the *Critical Dissertation* itself; above, pp….).

By his mention of Torrens, Bailey intended the case made out in 1821 regarding the inconceivability of a measure of exchange value. This is clear from the *Critical Dissertation*: "After these critical strictures [against Ricardo, Malthus, and De Quincey], it is a pleasure to cite a passage from an author, whose views as to the nature of value appear to me to be sounder than those of any other writer" (1825: 32):

> … even if a commodity could be found which always required the same expenditure for its production, it would not therefore be of invariable exchangeable value, so as to serve as a standard for measuring the value of other things. Exchangeable value is determined, not by the absolute, but by the relative cost of production. If the cost of producing gold remained the same, while the cost of producing all other things should be doubled, then would gold have a less power of purchasing all other things than before; or, in other words, its exchangeable value would fall one half; and this diminution in its exchangeable value would be precisely the same in effect, as if the cost of producing all other things remained unaltered, while that of producing gold had been reduced one half. In the very term, exchangeable value, a relative, and not an absolute quantity is implied. If gold should have a greater or a less power of

> purchasing all other things, then all other things would have a greater or a less power of purchasing gold. It is impossible to increase the exchangeable value of one set of commodities, without at the same time diminishing the exchangeable power of the other set of commodities with which the first is compared (1821: 56-7).

There is, however, no actual expression here of “debt” on Bailey’s part.

Bowley draws attention to the extension of the rent concept to the income from fixed capital by Craig 1821 (Bowley 1937: 131n; see also Williams 1978: 48); and, more generally, she maintains that “[t]hroughout his criticisms the influence of Say is very marked, and Bailey was in fact criticizing certain sections of Ricardo’s system in the light of Say’s general results” (93), an assertion, the evaluation of which would require a book in itself.[78]

Of potential importance as a “source” – though not formally recognized by Bailey – is Senior’s “Report on the State of Agriculture” 1821 (see above, p. …). The following extract contains several propositions close to those found in *Critical Dissertation* (above, pp….), including rent as “monopoly” price, an emphasis on demand-supply as “cause” of a high corn price with the corn raised at greatest cost only “regulating” the price of all corn units, and – in particular – the observation that the price of a random unit of corn will not reflect its “own” labour input:

> The sums … received by the landed proprietor are, of course, what is called rent. They are the surplus profit obtained from the investment of capital in land over that obtained from its investment in any other business; and they are occasioned by each portion of raw agricultural produce being raised at a different expense, and each portion, except that raised at the greatest expense, selling at a monopoly price, the difference between which price, and the natural price, is taken by the proprietor of the land, in return for the privilege of using it…. [N]o corn can ever pay rent, which has

not previously paid a remunerating price to the grower,[79] for rent is the excess of price above the remunerating price….

We have observed that there is a portion of corn, that raised at the greatest expense, of which the price roughly coincides with the cost of production. And it has been said, that as it is the price of that portion which governs that of all the remainder, the price of that remainder is likewise governed by the cost of production. But first, when we say that the price of any thing is governed by the cost of production, we mean the cost of its own production, - not of the production of any thing else. And, secondly, to say that it is the price of this last portion of corn, which governs that of the remainder, is to mistake the effect for the cause. The price of other corn does not rise because the last portion has been produced as a greater expense, but the last portion is produced, because the proportion of supply to demand has previously occasioned such a rise in the price of the corn already produced, that additional capital laid out in producing additional corn, at a greater proportionate expense, will return the average profit of capital. Corn does not become dear, because a portion is raised at great expense, but a portion is raised at a great expense because corn has already become dear.

The last step in agriculture will always be the application of fresh capital to land already in cultivation. The corn produced by it is intended to sell for its natural price; and this price must previously have been, and must continue to be, that of all other corn, or the last application of capital would not have been made, - would have been greater, - or would not be continued. And it is in this sense only, (and it must be acknowledged to be very obscurely pointed out,) that the corn raised at the greatest expense can be said to fix, or govern, or regulate the price of all other corn; not as an efficient cause, for it must be always subsequent in time, but as an index. All corn of

> the same quality will sell for the same price: and, therefore, if you find the natural price of the corn which is produced, and continued to be produced, at the greatest expense, you find the market price both of that corn and of all other corn (Senior 1821: 474-6).

One other "predecessor" deserves special mention. Seligman, in discussing Read's position, refers to the "Labour Theorists" (1903: 518), but neglects to mention William Thompson, whose discussion of value includes the conceptions of differential land use, alternative cost and scarcity value; and who applies the principle of diminishing marginal utility (together with the principle of increasing marginal disutility of effort) in an attempt to define an equilibrium wage rate, and also in a calculation of the effects of income redistribution (Thompson 1824: 71-3). The significance of free exchange is clearly expressed in utility terms: "All voluntary exchanges of the articles of wealth, implying a preference, on both sides, of the things received to the thing given, tend to increase the happiness from wealth, and thence to increase the motives to its production" (45). And whereas labour is said to be the sole measure of value, it was not an accurate measure in the light of changes in preference patterns over time; to seek an *accurate* measure was "to hunt after a shadow" (15). All this is far more sophisticated analytically than anything by Bailey.

ENDNOTES

1. A further suggestion for the long-term ineffectualness of the "dissenters" is their failure to enter into practical policy issues (Seligman 1903: 534-5).

2. See also Sowell: "If there is a classic of criticism in economics, it must be Samuel Bailey's *A Critical Dissertation*…" (1970: 402).

3. Schumpeter in fact implies *resilience* of the Ricardians in the mid-1840s: "Writing in 1845, McCulloch did not risk provoking laughter when he wrote in his *Literature of Political Economy* that Bailey had not properly appreciated the Ricardian theory [of value] and had not 'succeeded in any degree in shaking its foundations,' in the face of the fact that a poll of writers on value from 1826 to 1845 would produce a considerable majority for Bailey."

4. Mixter treats the issue of monetary appreciation in Bailey 1837, on which see below, p….

5. At only one place in his book does Schumpeter take issue with Seligman: "Professor Seligman was in error when he allocated to Lloyd the proud position of having been the first thinker in any country to advance what is known today as the marginal theory of value, and to explain the dependence of value on marginal utility" (1954: 1055).

6. See below, p… on the Bailey-Senior relation.

7. See also Bowley 1937: 93; Rauner 1961: 5-6; Black 1988: 224.

8. Cf. O'Brien 1975, 2004, where Bailey is referred to as "author of a brilliant if negative survey of value theory" (7; ….), and as "provid[ing] a damaging critique of Ricardo's value theory though he had relatively little positive to contribute himself" (48; ….).

9. Blaug argues the case for the resilience of "Ricardian" economics, but understands by the term "the proposition that the yield of wheat per acre of land governs the general return on invested capital as well as the secular changes in the distributive shares" (1958: 3); see also:

"The rate of capital formation was still held to be governed by returns in agriculture, and the core of the Ricardian system, the law of diminishing returns, continued to dominate the body of economic thought" (61). As an early reviewer remarked, "[t]he role of this component of Ricardo's theory is much exaggerated" (Stigler 1959: 641). O'Brien too identifies the "full Ricardian apparatus" with the "Corn Model" (1975: 41; 2004: 48).

10. Malthus actually precedes the comment cited by referring to Bailey's "fundamental errors" – he was himself *not* impressed. On this matter, see below section VI.

11. It is of interest that a political scientist should describe Bailey as "a Ricardian in economics, an empiricist in metaphysics, an advocate of representative government, a utilitarian in ethics, and a fervent champion of complete freedom of discussion" (Quincy 1986: 6). Unfortunately, we cannot say what this author understands by "Ricardian."

12. For the attribution to Mill see Rauner 1961: 149-57, Fetter 1962: 584; O'Brien and Darnell 1982: 108-28.

13. Schumpeter, we recall (see note 3), also mocks McCulloch's remark in the *Literature of Political Economy* "that Mr. Bailey does not properly appear to have appreciated the Ricardian theory of value, or to have succeeded in any degree in shaking its foundations" (1845: 33). Schumpeter might have added to his amusement by reference to De Quincey whose *Dialogues of Three Templars* (1824) had stimulated Bailey to compose his *Critical Dissertation* (1825: xxiv-xxv). The object of this early work, De Quincey later observed, had been "to draw into much stronger relief than Ricardo himself had done that one radical doctrine as to value by which he had given a new birth to Political Economy" (1844: 119). And while he had been pleased with the attention given to the work by Bailey, nevertheless "with all his ability, that writer failed to shake any of my opinions. I continue to hold my original ideas on the various aspects of this embarrassing doctrine."

14. This and the following sections elaborate specific features of two earlier papers devoted to the dissenting literature as a whole (Hollander 1977, 1998). A modification to Hollander 1998 regarding the Bailey canon, is discussed in Appendix B.

15. Bailey recognized the priority in this regard of Torrens, on which see Appendix C.

16. For an appreciation of this point, see Fraser 1937: 119n; cited however as being *in error* by Rauner 1961: 94-5. (See also, Bladen 1938: 31, with respect to Smith and Malthus.) For Rauner, "it was Bailey's perception of the inconsistency between real and relative value that had struck at the heart of Ricardo's system" (91; also 64, 98, 102).

17. A particularly interesting formulation occurs in a draft of Ricardo's final paper, the unpublished "Absolute Value and Exchangeable Value," where Ricardo formulated a criticism of Torrens (who identified a fall in the value of corn with a rise in the value of money) in terms that he doubtless would have applied to Bailey's objection to the conception of "real," "natural," "positive," or "absolute" value, that is, the "difficulty of production," in turn identified (usually) with labour embodiment: "This language may be correct as he uses it to express only exchangeable value but in Political Economy we want something more [;] we desire to know whether it be owing to some new facility in manufacturing cloth that its diminished power in commanding money is owing, or whether it be owing to some new difficulty in producing money. To me it appears a contradiction to say a thing has increased in natural value while it continues to be produced under precisely the same circumstances as before" (1951-73 [1823] *4*: 374-5).

18. Sowell exaggerates therefore when he writes that "Bailey rejected the Ricardian notion of a measure of value as designating the original cause of a change in relative values" (1970: 404).

19. The *Letter*, on my reading, is characterized by a refusal to read Ricardian texts fairly in

terms of "value" as labour embodied or, more generally, costs. (See, for example, the discussion of De Quincey (1826: 12-13).) Much of this work is designed to show, by citation, that – *pace* the *Westminster* reviewer – Ricardo was inconsistent and unclear in his terminological usage (29f). For a discussion of the *Letter*, see Rauner 1961, Chapter 6.

20. Rosenstein-Rodan points out correctly that "the classical distinction between changes in the value of money originating on its side and changes in its value originating on the side of commodities" reflects "the theory of real value" (1936: 263). This theory, he opines, "has been vigorously exposed in the brilliant book of S. Bailey…. But the distinction was so generally accepted that Bailey himself fell back into it in his otherwise very valuable book: *Money and its Vicissitudes in Value* … 1837: 16-17."

Bailey's *Money* – not mentioned by Seligman – is of the highest importance, especially for its analysis of "accelerated circulation" as means of activating "inert" or "dormant" or "unemployed" capital and labour (1837: 55f.), an analysis appearing in print seven years before J.S. Mill's "Of the influence of Consumption on Production" (Mill 1963-91 [1844] *4*: 262-79). Mill makes no reference to this analysis; Marx cites it at length in his *Grundrisse* of 1857-58 (MECW *28*: 502-4).

The book also contains much of interest regarding banking policy, Bailey arguing against control of note issues.

21. A little earlier in his text Bailey had forcefully rejected strong statements of the labour theory by James Mill, De Quincey and McCulloch (1825: 207-8).

22. This is ironic, since the index was probably compiled by James Mill, not Ricardo himself (see Sraffa in Ricardo 1951-73 *1*: xxi-xxii). It is difficult to see how Ricardo could have played up the "qualifications" more than in the heading to his Section IV in Chapter 1: "The principle that the quantity of labour bestowed on the production of commodities regulates

their relative value, *considerably modified* by the employment of machinery, and other fixed and durable capital" (30; emphasis added).

23. See also, below p. … for a further instance of Ricardo's generalization of the rent principle.

24. An indication of the ineffectualness of the "mental" dimension is provided by the following note: "Value implying, as I have before shown, a mental affection, and consequently all causes of value being, in reality, circumstances affecting the mind, it might be more correct to speak of the causes operating on the mind with regard to an object, than of the causes operating on the object itself; but the latter is a shorter mode of expression, sufficiently intelligible, and not likely to lead into error" (1825: 16n).

25. For the defence of Torrens against James Mill's strictures, see Bailey 1825: 203f.

26. On this issue, see in particular Bowley 1973: 161-9; Williams 1978: 62-7.

27. Recall that the rate of accumulation, for Ricardo, is a function of the profit rate (1951-73 *1*: 122).

28. The *Critical Dissertation*, we have seen, emphasizes a simultaneous rise in both the profit and wage rates in the case of increasing productivity. What though of the simultaneous fall in both assuming declining productivity, a characteristic feature of the canonical classical model? Certainly the former *implie*s the latter, but Bailey failed to spell the matter out in his 1825 contribution. This takes us to the 1821 *Inquiry* where the joint-incidence principle is spelled out, though to this day it is uncertain whether or not Bailey is the author (see Appendix B).

29. For a brief account of Cotterill, see Rauner 1961: 129-32. Rauner writes that Cotterill's book "clearly contained a debt to the *Critical Dissertation*" (129), but his account raises

similar issues to those in our text. See also: "C.F. Cotterill (1831) and H.D. Macleod (1863, 1866) both praised Bailey's work and used his treatment of the nature and measure of value in their own studies" (1987: 174).

30. In his chapter dealing with the causes of value, Bailey had distinguished between "commodities which are monopolized, or protected from competition by natural or adventitious circumstances"; those "in the production of which some persons possess greater facilities than the rest of the community, and which therefore the competition of the latter cannot increase, except at a greater cost"; and those "in the production of which competition operates without restraint" (1825: 185). The general notion is that "their respective causes of value cannot be the same."

31. On Ricardo's according a special role to labour in Read's sense, see Hollander 1979: 263-4.

32. The same kind of criticism is directed by Read against Lauderdale's *Inquiry* of 1804. Any attempt "to reduce the idea of value to a mere *relation of commodities between themselves*, without any connexion with mankind, with labour, or with cost of production" is fatal, since "the connexion of the exchangeable value of commodities with labour and cost of production is indeed the only circumstance which confers any importance on the connexion of the exchangeable value of commodities between themselves" (1829: 221).

Extraordinary as it may seem Read went so far as to charge the "Ricardo School" for following Lauderdale's lead in *emphasizing* utility and scarcity or supply-demand rather than cost analysis (220-1).

33. For a downplaying of Bailey's influence on Read, see also Rauner 1961: 128; O'Brien 1988: 199.

34. O'Brien 1988: 198 cites Bowley as indicating "a limited but important influence,"

whereas in fact she expresses herself with extreme caution regarding Bailey's influence on Senior with respect to the theory of value. Bowley 1973: 161-7 provides a detailed comparison of the two writers.

35. See also:

> Although Senior did not acknowledge the writings of Bailey (nor of Jones, Read, or Scrope for that matter), his influence is writ large in Senior's book. It is evident in the generalization of the rent concept and in the attack on the assumption of "perfectly equal competition": whenever an appropriated natural agent concurs in the production of a commodity the value of such an article contains a "rent" payment which is not governed by any general rule. Since the assistance of natural agents may comprise all the advantages of soil or situation, personal talent and skill, patents and copyrights, most commodities are not really subject to the laws of competitive value [Senior 1836: 103-14] (Blaug 1958: 157).

Blaug's position is accepted by O'Brien 1988: 195, 198.

36. For the attribution to Senior, see Fetter 1958: 159. Seligman makes no mention of the 1821 paper. Bowley only mentions it in her Preliminaries (1937: 21) and in her Appendix where its attribution to Senior in the *Dictionary of National Biography* is mentioned (344).

J.S. Mill refers in 1827 to this article, in the course of an objection to T.P. Thompson's "The True Theory of Rent" (1826): "Mr. Thompson does not perceive that his theory of *rent* differs from that of Mr. Ricardo only in the expression. There is no difference in the principle, and we cannot but think, that, even in the mode of stating it, Mr. Ricardo has decidedly the advantage" (1963-91 *4*: 151n). He goes on to refer to Senior's priority: "Moreover, if the case were otherwise, and if Mr. Thompson's theory were a real discovery, whatever merit it might possess is by no means his own, since all he has brought forward had been said previously in a single paragraph, and much more clearly, by the *Quarterly Review*, No. 50, pp. 475-6, in an able article attributed to the present Professor of Political Economy in the University of Oxford" (151-2n).

37. Mill alluded in 1828 to those "who affect to suppose that Sir Edward West, Mr. Malthus, and Mr. Ricardo, considered the cultivation of inferior land as the *cause* of a high price of corn" (1963-91 *4*: 174). The argument that "the cultivation of inferior soils is not the cause but the effect of high price, itself the effect of demand" was, he insisted, a doctrine "explicitly laid down by the distinguished authors previously referred to, and particularly by Mr. Ricardo." Mill may have had in mind Senior 1821 and/or Bailey 1825.

38. On Mill's intentions by this declaration, see below, p. ….

39. Here he controverted a *Westminster Review* article on colonization plans, by showing that "when the productive powers of industry are increased there may be, at one and the same time, an increase, both in profits, and in wages" (1835: 33-4), insisting that this did *not* refute Ricardo when interpreting the inverse profit-relation correctly as relating to proportionate shares expressed in ideal money (30).

40. Torrens admitted Ricardo's use of "obscure and equivocal nomenclature," but the substance of his theory held good that "profits rise or fall as the cost of producing wages is diminished or increased" (1844: xxxv-xxxvi).

41. See the passage cited, below (V: p. …).

42. The *Critical Dissertation* is highly critical of Mill, as we shall see, but Bailey's earlier *Questions in Political Economy* (1823) is very positive, Mill perhaps receiving more credit than any other contemporary. Thus *Commerce Defended* (1808) provided a "full and masterly exposition" of the case against Spence, "throwing considerable light on the general

sources of the wealth of nations" (Bailey 1823: 20-1). And the *Elements* – "an excellent elementary book" – is cited favourably on the benefits derived from imports (21-2), as providing "a most able discussion of the disadvantages of interference in the corn trade" – a discussion constituting "the summing up of a luminous mind" (31), as presenting the case against "gluts" in a manner Malthus could not refute (39-44), as containing "excellent Sections on Money" (69) and an "excellent" analysis of the effects of colonies on the mother country (89), and as giving the proper response to Hume on the alleged benefits of inflationary injections (74-5). Mill's analysis of exchange value, which represents "demand-supply" as accounting for short-run and "costs" for long-run price, is said to be "so clear and concise, that it will be generally considered as a satisfactory solution to the problem" (99). The issue, Bailey adds, "applies to 'such commodities only,' to borrow the words of Mr.Ricardo, 'as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.' Monopolized commodities are acknowledged, on all hands, to depend upon the principle of supply and demand"(100).Only with respect to population theory is there some demurring, for while the *Elements* is recommended as presenting a "brief and clear elucidation," Mill had not "chosen the most striking set of arguments to support the doctrine…"(13).

43. Technically, Mill errs. In a system subject to increasing land scarcity, the proportionate share of labour *necessarily rises* as the real wage declines – for it is the *necessary rise* in labor's share in the marginal product, notwithstanding the decline of the wage in real terms, that depresses the profit rate. For all that, this passage implies a falling wage path during the course of growth. This is further confirmed by Mill's policy prescription which is to assure a reduction in the birth rate while wages are still "ample," thereby preventing any further decline and bringing growth to a halt prematurely: "Were that accomplished, while the return

to capital from the land was yet high, the reward of the labourer would be ample, and a large surplus would still remain" (1821: 52; 1824: 68; 1826a: 65). The alternative, considering "the natural tendency of population to increase faster than capital" – and this Mill purported to establish – was a "perpetual tendency in wages to fall" until an equilibrium is achieved (1821: 29; 1824: 45; 1826a: 45). Again, though Mill is technically in error, for the wage falls even if capital and population decelerate in tandem, he does describe a falling wage path. I warmly recommend these passages to the attention of Dr. Peach, who has opined that there is not "a single instance in Mill's *Elements* of the so-called shared-incidence principle" (Peach 2007: 314).

44. Torrens actually asserted that Mill "gives up" the doctrine that profits rise or fall … in all cases except in those in which the terms are used, not according to their accustomed acceptation but with reference to proportions" (1826: …). This is misleading, since Mill *identified* the proportions and the rate-of-return cases" – the latter being the "accustomed acceptation" – and insisted on the validity of the inverse relation in such cases. It is in terms of *quantity* that the relation did not hold good unreservedly and Mill believed that no-one had ever said otherwise (see above, p. …regarding Mill 1826a: 74). On this latter point, see Robbins 1958: 55n.

45. Bailey commended Mill for introducing in his second edition (even before De Quincey) the contrast between a *measure* and *cause* of value, but charged him with inconsistent usage, referring to Mill 1824: 108 (1825: 171n, 205n). Mill made no adjustment in his third edition (1826: 113).

46. Bailey points out sarcastically that the "credit of this argument … is due to Mr. M'Culloch, whose authority is cited by Mr. Mill" (1825: 217n). For Ricardo's objections to Mill in this regard, in his last paper "Absolute Value and Exchangeable Value", see 1951-73

4: 375-6.)

47. The conditions were already formulated in the first edition of the *Elements* (Mill 1821: 82), Mill presumably drawing upon Ricardo's third (1821) edition of the *Principles* (1951-73 *1*: 43-6). The 1824 version is, however, much extended and one suspects that Mill benefited from Ricardo's draft "Absolute Value and Exchangeable Value," the language of which resembles that of Mill: "By far the greatest number of commodities which are the objects of exchange are produced by the union of capital and labour' rather than by the "extremes" (Ricardo 1951-73 *4*: 405).

48. See also: "That Bailey made little impact on McCulloch is clear from the continuity between an article which McCulloch published in the *Scotsman* in 1824 (February 21) on exchangeable value, and the position which he took in the first edition of his *Principles*" (O'Brien 1970: 138). Yet allowance must be made for McCulloch's tribute in 1825: "The conditions essential to the production of an invariable measure of exchangeable value were first clearly pointed out in the *Dissertation on the Nature, Measures, and Causes of Value*, p.17. (1825: 214n). Also to be taken into account is a possible impact of McCulloch on Bailey, on which see below p. 91.

49. The "objections" relate to analysis of the effects of a change in the profit rate.

50. The *Principles* was published in December 1825 and the *Critical Dissertation* in June (see *English Catalogue of Books*, 1914: 166 cited Rauner 1961: 86n).

51. Ricardo's paraphrase in the 1823 correspondence of McCulloch's position reveals his own position, that to understand the "law" of exchange value was a necessary preliminary to specifying the invariability conditions required of a measure of value:

> We none of us exactly agree. McCulloch says he is not in search of a measure of

value, his only object is to know what it is which regulates the relative value of commodities one to another, and that, he insists, is the quantity of labour necessary to produce them. But McCulloch uses the word labour in a sense somewhat different to Political Economists in general, and does not appear to me to see that if we were in possession of the law which regulates the exchangeable value of commodities, we should be only one step from the discovery of a measure of absolute value (letter of 31 August 1823; Ricardo 1951--73 *9*: 377).

52. Elsewhere the term "*real* wage" indicates the *commodity* wage, as on 1825: 365 cited below, p…n).

53. It may also be noted that for both, even should the *level* of prices rise in consequence of a wage increase, the purchasing power of profits necessarily falls so that the fundamental theorem still held good (McCulloch 1825: 297; Ricardo 1951-73 *1*: 8).

54. For example, with capital = 1000 qs (or £1000), of which wages = 500, non-wage capital (seed etc) = 500 yielding 1200, then profits = 200 or 20% and profit/wages = 2/5. With a doubled yield but retaining a 2/5 profit-wage ratio of the *additional* output, profits rise by 2/7 (1200) = 343 to 543 and wages by 5/7 (1200) = 857 to 1357. As *shares of net output* (output less constant non-wage capital = 500), wages remain at 71%, and profits at 29%; but the *rate of profit* estimated on total capital rises from 20% to 543/1000 = 54%.

In another example, McCulloch assumes initially a "capital" of 10,000 quarters (= £10,000) entailing seed, fodder, wear and tear of equipment = 5,000 + wages = 5000 yielding 12,000 qs, of which 1,000 = taxes, then net profits = 1000 = 10% on capital. If, *ceteris paribus*, wages fall by 1000, then profits will rise from 1000 to 2000 or from 10 to 20%; if taxes fall *ceteris paribus* from 1000 to 500, profits will rise from 100 to 1500 or from 10 to 15%; and if because of technical progress the yield rises from 12,000 to 13,000, profits (with wages at the original 5000) will rise from 1000 to 2000 or to 20%. The last case is the most significant, for

> though, in this case, after the increased productiveness of industry had taken place, wages would form a less proportion of the whole produce of industry than they had done previously, it is to be observed, that this diminished proportion is the *consequence*, and not the cause of profits having risen; and, therefore, in such cases as this, and they are of very frequent occurrence, it is true to say, that the fall of proportional wages has been occasioned by the rise of profits; but the converse of the proposition is not true, for profits rose from causes that had nothing whatever to do with wages, and which were, in fact, totally independent of them (370).

There also arose the possibility that the profit rate remains unchanged though *proportionate* wages – the wage share in output – rise. For example, with capital = 1000 composed of 500 seed etc, 500 wages; output = 1200; taxes = 100; then profits = 100 or 10%. Assume that new technology permits the same output with 400 seed and assume also wages rise by 100 then (given taxes) profits are unchanged though proportional wages rise from 5/12 to 6/12 of the aggregate output (371-2).

55. In this context, McCulloch uses the term “real wages” to indicate the commodity wage as distinct from proportional wages: “If the productiveness of industry were to diminish, proportional wages might rise, notwithstanding that real wages, or the absolute amount of the produce of industry falling to the share of the labourer, might be diminished: and if, on the other hand, the productiveness of industry were to increase, proportional wages might be diminished, while real wages might, at the same time, be increased” (1825: 365).

For an exchange regarding the falling commodity-wage path as a feature of classical theory, including McCulloch’s contribution, see Peach 2007a, 2007b and Hollander 2007.

56. This view is repeated in Blaug's textbook 1978: 206, but is apparently subsequently removed (1997: …).

57. On this linkage, see Tucker 1960: 96.

58. Rauner, while claiming an apparent influence by Bailey upon Mill is cautious. He points out that "Bailey had not been alone in seeking the generalization of the rent concept. But he had been among the first and foremost advocates of it in England. And if Mill, perhaps, drew more directly from Senior than Bailey, this is not to say that Senior himself was unaware of the *Critical Dissertation*, although he never explicitly referred to it" (1961: 140).

59. Mill goes on to explain that "I first heard of [*Some New Principles*] from Mr. Senior who recommended it to me as a book of which he had a high opinion…" (1963-91 *14*: 241). When the information was conveyed is not specified, but evidently it was sometime before 1848. Senior's own influence on Mill's *Principles* appears to be limited to forms of expression. For example: "As the wages of the labourer are the remuneration of labour, so the profits of the capitalist are properly, according to Mr. Senior's well-chosen expression, the remuneration of abstinence…." (1963-91 *2*: 400). There is no mention at all of Senior in the chapter "Of the Law of the Increase of Capital," and none in "Of Profits" apart from the above-cited definition.

60. On Bailey's charge, see De Quincey 1844: 269-70.

61. For Ricardo's formulation, see above, p….

62. But Blaug's textbook for some reason omits this feature (1985: 220; 1997: 212).

63. On this classification, see Bowley 1973: 161-9; Williams 1978: 62-7.

64. For criticism of this feature, see Bode's reference to Bailey's Chapter V, "On Comparing Commodities at Different Periods," as deficient in "attempt[ing] to show that any

intertemporal comparison of the value of a commodity must be meaningless…. [I]n all cases where the periods in question fall within the scope of one plan, intertemporal comparison of value is not only possible but is essential to the rationality of this plan" (Bode 1935: 344). The deficiency is ascribed in part "to the fact that Bailey did not recognize the essence of subjective value as that of an index of degree in the subjective economic scale…." Also see Robbins: "Bailey overstates his case to this extent, that he does not mention *prospective* value relations through time (1935: 60n). This is to be generous, since Bailey *denied* the meaningfulness of intertemporal value comparisons.

65. As for general purchasing power, the relation was asymmetric. A variation in the money-corn exchange rate would not indicate that the general purchasing of *money* had changed: "Broad, glaring, and incontrovertible facts show, that for short periods money *does* perform the function of measuring the variations in the general power of purchasing possessed by the corn; but that the corn does not measure the variations in the general power of purchasing possessed by the money" (1986 [1827] *8*: 78). This point is made against Bailey's position (1825: 117) that money would not "be here discharging a particular function more than the other commodity" (also 81, regarding Bailey 1825: 102).

66. Cf: "It is universally acknowledged that there cannot be an accurate measure [of general purchasing power]."

67. The objections to the latter two are readily summarized. Bailey implied by them what was patently untrue: "Secondly, that the value of corn in one year cannot be compared with the value of corn in another, because value denotes only a relation between two things at the same time. And thirdly, that the comparative steadiness in the value of the precious metals, for short periods, is of no service to them in the capacity of a measure of value" (1986 [1827] *8*: 87).

68. In the 1823 correspondence Ricardo had objected that *commodities*, not labour, *are* in fact advanced (1951-73 *9*: 381).

69. That "proof" starts out by positing the identity of labour embodied and commanded; and then modifies the situation by allowing for capital (or time) so that a profit element has been included, which implies an excess of labour commanded over labour embodied.

70. Given Malthus's objectives, it would have been preferable had he reworked his table. The table as it stands is misleading since it *commences* with a known profit rate and appears to build up to column 7 – the constant value of the wage. His true position – at least in the 1827 version – is that the profit rate emerges from the constancy of the wage. This is better conveyed by commencing with the constant value of the wage at (say) *unity* and then allowing for different labour inputs into the wage (owing to changes in the magnitude of the basket and/or changes in labour productivity) with profits yielded as the residual. This in contrast to Ricardo's procedure which sets *a day's labour as "unity"* and derives profits as a residual varying inversely with the fraction of a day's labour embodied in the wage.

71. See also above regarding 1986 [1827] *8*: 83-4.

72. I do not maintain an *identity* of the Ricardo and Malthus positions. The differences between them – which include, apart from the dispute over the measure of value, alternative causal sequences and alternative perspectives on the aggregate demand problem – are spelled out in Hollander 1997: Chapter 10.

73. See Ricardo's agreement with Malthus on the falling commodity wage in his Note 61, in 1951-73 *2*: 124. He insisted, however, that the *money value* of the lower commodity wage necessarily rises only with the Ricardo measure.

74. See also Malthus's protest, in correspondence of 1831 with Whewell, that Jones had gone

too far in his rejection of the orthodox position relating to growth subject to land scarcity (de Marchi and Sturges 1973: 385-6, 389).

75. This view has filtered down. Thus a New School web site (cepa.newschool.edu/het/schools/anti.htm) has the following under *Samuel Bailey*: "Pointed out the logical difficulties of both the labor theory of value and Ricardo's 'invariable measure.' An early promoter of the theory of scarcity and the generalization of the Ricardian theory of rent, thus can be considered a precursor of the Marginalist Revolution."

76. Schumpeter does add a reference to Bailey's *Letter to a Political Economist* (1826), as responding to "a grossly unfair criticism in the *Westminster Review*," the review now known to have been written by James Mill.

77. It is not clear that Seligman read the pamphlet carefully; see the comment by Sraffa in Ricardo 1951-73 *9*: 27n, regarding Seligman 1903: 351.

78. As an example of the complexities involved, consider the fact that despite Say's representation of the invariable standard as a "pure chimera," he nonetheless actually adopted Malthus's measure – which Bailey, of course rejected. On this matter, see Hollander 2005:43.

The analogy between land rents and payments to skilled labour exceeding reimbursement of training costs, is to be found in Storch 1823 (see Williams 1978: 48).

79. "In its proper sense the remunerating price of any thing is its natural price – the price which replaces the capital employed in its production with the average profit of capital at the same time and place" (Senior 1821:474).

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