

David Ricardo (1772-1823), value
and distribution



David Ricardo 1 : On value

Introduction

Biographical elements

Ricardo vs. Smith

Ricardo : Biographical elements

- 18 avril 1772 Born in London into a Sephardic Jewish family (3rd of 17 children)
- From the age of 14, worked in his father Abraham (stockbroker), gaining early experience in trading and finance.
- 1793 - Married Priscilla Ann Wilkinson, converted to Protestantism, and broke with his family.
- c. 1794–1795 (around age 22), started working independently as a broker.
- 1799: Discovered political economy through reading *The Wealth of Nations*. Began studying monetary and economic issues.
- 1814 - Having made his fortune (sometimes anecdotally linked to the Battle of Waterloo), retired from trading to focus entirely on economic theory.
- 1815 - *Essay on the Influence of a Low Price of Corn on the Profits of Stock*.
- 1817 - First edition of *On the Principles of Political Economy and Taxation* (2nd ed. 1819, 3rd 1821).
- 1819 Entered Parliament (House of Commons); participated in debates on import restrictions on grain (Corn Laws) and on poor relief (Poor Laws).
- 11 september 1823 Dies at age 51.

Ricardo vs. Smith

- Almost everything separates these two major figures in HET.
- Their **backgrounds and fields of interest** first:
 - **Smith** embodies the figure of the **Enlightenment scholar**: formal education, academic career, broad interests and diverse writings (economics, moral philosophy, jurisprudence, philosophy of science, rhetoric, arts, etc.).
 - **Ricardo** was **self-taught** and wrote exclusively on economics and monetary issues.

Ricardo vs. Smith

- Almost everything separates these two major figures in HET.
- Then, their respective **methods** :
 - Smith's approach is rooted in **empiricism** (influenced by Newton): analysis based on observation and induction..
 - Ricardo's approach is more **deductive**: starts from abstract examples or small “models” which, through deduction, lead to logically demonstrated conclusions.

Ricardo vs. Smith

- Smith and Ricardo also wrote in **very different historical contexts**.
- **Smith's** work, while not naïve, was grounded in a certain optimism and in the idea of a **general progression of wealth**—a vision closely linked to the Enlightenment.
- By contrast, **Ricardo's** work (along with Malthus's) is markedly more **pessimistic**.

Thomas Carlyle (1849) famously coined it a “**dismal science**.”

Michel Foucault (*Les mots et les choses*, 1966) : the advent of a modern representation of the relationship between humans and nature, marked by an **awareness of scarcity**.

Ricardo vs. Smith

- **The awareness of scarcity**(M. Foucault 1966):
 - **Before the 19th century:**
nature was seen as generous / human needs were considered limited (*cf. Locke, Physiocrats, Smith, etc.*)
 - **Early 19th century (Ricardo, Malthus):**
nature viewed as stingy / human needs as unlimited and insatiable

Ricardo : diminishing agricultural returns

Malthus : population principle

Ricardo vs. Smith

- Malthus : *An Essay on the Principle of Population* (1798)
 - Population growth follows a **geometric progression**.
 - The stock of **subsistence goods** (e.g., wheat) grows according to an **arithmetic progression**.
- ⇒ Over time, this creates an ever-growing gap between **population size** and the **subsistence needed to sustain it**.

Période	T1	T2	T3	T4	T5	T6
Population	2	4	8	16	32	64
Blé	2	4	6	8	10	12

Ricardo vs. Smith

- Malthus : *An Essay on the Principle of Population* (1798)

« A man who is born into a world already possessed (...) if the society do not want his labour, has no claim of right to the smallest portion of food, and, in fact, has no business to be where he is. At nature's mighty feast there is no vacant cover for him. She tells him to be gone, and will quickly execute her own orders, if he does not work upon the compassion of some of her guests. »

Controversial quote from the 2nd edition of the *Essay* (1803)

Ricardo vs. Smith

- This shift in discourse can be explained by a **radical change in context**.
- Between the publication of *The Wealth of Nations* (1776) and the *Principles of Economy* (1817), the **British population doubled!**
 - The British economy experienced recurrent crises
 - Working conditions deteriorated (proletarianization)
 - Mechanization developed in industry
 - Major labor unrest occurred (e.g., Luddite uprisings in 1811–1812)
- Overall, Malthus's and Ricardo's discourse is far more cynical than Smith's.

Ricardo vs. Smith

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- Overall, Malthus's and Ricardo's discourses are far more cynical than Smith's, e.g., **their opposition to the Poor Laws**

Ricardo vs. Smith

- The **Poor Laws** – laws passed by the British Parliament in the 16th–19th centuries to **combat poverty, begging and vagrancy**.

Aid conditional on settlement
(Poor Relief Act 1662, aka “Settlement Act”).

- **Smith** opposed the Poor Laws because he believed they **encroached on the recipients’ freedom of movement**.
- **Ricardo and Malthus opposed them for a very different reason:** In their view, the Poor Laws produced the opposite of the intended effect (**perverse effect rhetoric**).

Aid → higher birth rates → more poor people!

« These laws may be said to create the poor which they maintain »
(Malthus 1798)

Ricardo vs. Smith

- Differences in **background**
- Differences in **methods**
- Differences in **contexts**
- And above all, **theoretical and analytical divergences:**

Although Ricardo came to economics through reading *The Wealth of Nations* and took Smith as a reference, his analysis is framed both in opposition to and as a continuation of his predecessor's work.

⇒ Different analyses of **value, distribution, and the factors affecting long-term accumulation** (e.g., the **tendency of the profit rate to fall**).

End of the introduction

The Ricardian theory of value

The Ricardian theory of value

1. The value paradox (value in use vs. exchange value)
2. The subject of political economy
3. Embodied labour as the determinant of value
4. The issue of labour heterogeneity
5. The convergence of market prices towards natural prices

The Ricardian theory of value

1. The value paradox (value in use vs. exchange value)

Ricardo introduces the theme of value in the same way as Smith, distinguishing between **two meanings of the word “value”**:

“It has been observed by Adam Smith, that '**the word Value has two different meanings**, and sometimes expresses the **utility** of some particular object, and sometimes the **power of purchasing** other goods which the possession of that object conveys. The one may be called **value in use**; the other **value in exchange.**”
(*Principles*, chap. 1, section 1)

The Ricardian theory of value

1. The value paradox (value in use vs. exchange value)

Value in use (VU): the utility of a good linked to its intrinsic qualities.

Value in exchange (VE): the purchasing power over other commodities that ownership of a commodity conveys.

“The things (...) which have the greatest value in use, have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange, have little or no value in use”
(*Principles*, chap. 1, sec. 1)

Like Smith, Ricardo observes that the **exchange values of commodities are independent of their utilities**; indeed: :

VU of water > VU of gold but **VE of gold > VE of water**

The Ricardian theory of value

1. The value paradox (value in use vs. exchange value)

- The value in exchange of commodities therefore **do not depend on their utility**.
- Utility is a necessary but not sufficient condition for exchange value.
- For a good to have exchange value, **a second necessary condition must be met: scarcity**
(i.e., limitation in quantity → intro on the *awareness of scarcity*).
- Goods that have exchange value are **both useful and scarce**.

The Ricardian theory of value

2. The Subject of Political Economy

Among useful and scarce goods, **two categories must be distinguished:**

- **Non-reproducible goods**, whose scarcity is absolute
- **Reproducible goods**, whose scarcity is relative
- “Possessing utility, commodities derive their exchangeable value from two sources: from their scarcity, and from the quantity of labour required to obtain them.” (*Principles*, chap.1, sec. 1).

The Ricardian theory of value

2. The Subject of Political Economy

Among useful and scarce goods, **two categories must be distinguished:**

- **Non-reproducible goods**, whose scarcity is absolute, in the sense that the quantity available **cannot be increased by human labor**: works of art, vintage wines, collectible items.
- Their value depends on **two factors**:
 1. **Supply-side scarcity**
 2. **Demand-side preferences** – “the fortune, tastes, and whims of those who wish to own such items.”

The Ricardian theory of value

2. The Subject of Political Economy

“There are some commodities, the value of which is determined by their scarcity alone. No labour can increase the quantity of such goods, and therefore their value cannot be lowered by an increased supply. Some rare statues and pictures, scarce books and coins, wines of a peculiar quality, which can be made only from grapes grown on a particular soil, of which there is a very limited quantity, are all of this description. **Their value is wholly independent of the quantity of labour originally necessary to produce them,** and varies with the varying wealth and inclinations of those who are desirous to possess them. **These commodities, however, form a very small part of the mass of commodities** daily exchanged in the market” (*Principles*, chap. 1, sec. 1)

The Ricardian theory of value

2. The Subject of Political Economy

Among useful and scarce goods, two categories must be distinguished:

- **Non-reproducible goods**, whose scarcity is absolute
- **Reproducible goods**, whose scarcity is relative, **since their available quantity can be increased by** applying the necessary **labour** to their production.

Their quantity can be multiplied, almost indefinitely, by human industry.

The Ricardian theory of value

2. The Subject of Political Economy

Among useful and scarce goods, two categories must be distinguished:

- **Non-reproducible goods**, whose scarcity is absolute
- **Reproducible goods**, whose scarcity is relative, **since their available quantity can be increased by** applying the necessary **labour** to their production.

“**By far the greatest part of those goods** which are the objects of desire, **are procured by labour,** and **they may be multiplied**, not in one country alone, but in many, almost without any assignable limit, if we are disposed to bestow the labour necessary to obtain them”. (*Principles*, chap. 1)

The Ricardian theory of value

2. The Subject of Political Economy

These goods – which we will call **commodities** – and only these goods will constitute the **object of study of political economy**, with the additional condition that they are **produced under conditions of competition**.

“In speaking then of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.” (*Principles*, chap. 1)

The Ricardian theory of value

3. Embodied labour as the determinant of value

- What determines the **value in exchange (VE)** of reproducible commodities, if not their **utility (VU)**?
- For Ricardo, **“the value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production”**.
- This is what is retrospectively called **“embodied labour.”**
- By asserting this, Ricardo **opposes Smith**, who limited the scope of this explanation of value to an **“early and rude state,” without private land ownership and without capital.**

The Ricardian theory of value

3. Embodied labour as the determinant of value

- Ricardo **opposes Smith**, who distinguished **two stages or “states of society”** in his analysis of value determination:
- A **“primitive state”**, without social classes (a society composed of independent workers), where **all the product of labour goes to the worker**.
- In this primitive state, the **values of commodities** are determined exclusively by the **quantities of labour required for their production**.

The Ricardian theory of value

3. Embodied labour as the determinant of value

- The “early and rude state,” according to Smith

“In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, **the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another.** If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. It is natural that what is usually the produce of two days' or two hours' labour, should be worth double of what is usually the produce of one day's or one hour's labour.” (Smith, WN, book I, ch. 6)

The Ricardian theory of value

3. Embodied labour as the determinant of value

- Smith then considers an **“advanced” state** of society (the society of his time), where there are now **three social classes** (workers, capitalists, and landowners) and **three kinds of income** (wages, profit, and rent).
- Under these circumstances, the **product of labour no longer belongs entirely to the worker**. There is a **“double deduction”** from the product of labour: profit and rent.
- Labour is **therefore no longer, according to Smith, the sole determinant of value**.

The Ricardian theory of value

3. Embodied labour as the determinant of value

- The “advanced state,” according to Smith

“In this state of things, the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock which employs him. **Neither is the quantity of labour commonly employed in acquiring or producing any commodity, the only circumstance which can regulate the quantity which it ought commonly to purchase, command, or exchange for.** An additional quantity, it is evident, must be due for the profits of the stock which advanced the wages and furnished the materials of that labour.” (ibid.)

“Wages, profit, and rent, are the three original sources of all revenue as well as of all exchangeable value. All other revenue is ultimately derived from some one or other of these.” (ibid.)

The Ricardian theory of value

3. Embodied labour as the determinant of value

- The « early and rude » and « advanced » states in Smith :

« early and rude » state	« advanced » state
Precedes private land ownership and capital accumulation	Follows private land ownership and capital accumulation
No social classes (society of independent workers)	3 social classes (workers, capitalists, landowners)
all the product of labour goes to the worker.	double “deduction” from the product of labour: profit and rent.
One determinant of value: the labour required for production	Three component parts of price: wages, profit, and rent

The Ricardian theory of value

3. Embodied labour as the determinant of value

- Smith therefore **shifts from an analysis in terms of labour required to produce (or embodied labour) to an analysis in terms of incomes** (wages + profit + rent).
- Ricardo **challenges this view**: for him, **capital already exists in the “early and rude state”** of society in the form of tools (e.g., hunters’ weapons).
- These tools constitute means of production, or **fixed capital**, which is itself reducible to **prior labour**—that is, labour previously performed to produce the means of current production.

The Ricardian theory of value

3. Embodied labour as the determinant of value

- To determine the value of a beaver or a deer, one should therefore consider both the time spent hunting (**immediate or direct labour**) and part of the previous labour involved in making the hunter's weapons—that is, the fixed capital required for hunting (**past indirect labour**).
- “Suppose the weapon necessary to kill the beaver, was constructed with much more labour than that necessary to kill the deer (...) one beaver would naturally be of more value than two deer, and precisely for this reason, that more labour would, on the whole, be necessary to its destruction.”
(Principles, ch. 1, sec. 3)

The Ricardian theory of value

3. Embodied labour as the determinant of value

- Now, this criticism does not, by itself, invalidate Smith's theory of the components of price.
- The value of previously produced means of production can be broken down into wages, profits, and rents paid to produce them. As a result, the price of any commodity remains determined by the sum of present and past incomes.
- For Smith, what matters is not the mere presence of capital, **but its ownership.**

The Ricardian theory of value

3. Embodied labour as the determinant of value

- Ricardo adds that social classes could exist even in the early and rude state:

“All the implements necessary to kill the beaver and deer **might belong to one class of men, and the labour employed in their destruction might be furnished by another class**; still, their comparative prices would be in proportion to the actual labour bestowed, both on the formation of the capital, and on the destruction of the animals.” (Ricardo, *Principles*, ch 1, section iii)

The Ricardian theory of value

3. Embodied labour as the determinant of value

- There would therefore be **no difference**, either from a technical or a social point of view, **between the primitive and advanced states**.
- According to Ricardo, **both are governed by the same economic laws**:

the exchange values of commodities are **at all times and in all places determined by the labour embodied in their production and in transporting them** to the place of sale, which includes a portion of past labour embodied in the production of tools, means of production, and even raw materials.

The Ricardian theory of value

3. Embodied labour as the determinant of value

- «The exchangeable value of the commodities produced [*is*] in proportion to the labour bestowed on their production; **not on their immediate production only, but on all those implements or machines required** to give effect to the particular labour to which they were applied. »

(Ricardo, *Principles*, chap 1, section iii)

The Ricardian theory of value

3. Embodied labour as the determinant of value

- **“In estimating the exchangeable value of stockings, for example, we shall find that their value, comparatively with other things, depends on the total quantity of labour necessary to manufacture them, and bring them to market.** First, there is the labour necessary to cultivate the land on which the raw cotton is grown; secondly, the labour of conveying the cotton to the country where the stockings are to be manufactured, which includes a portion of the labour bestowed in building the ship in which it is conveyed, and which is charged in the freight of the goods; thirdly, the labour of the spinner and weaver; fourthly, a portion of the labour of the engineer, smith, and carpenter, who erected the buildings and machinery, by the help of which they are made; fifthly, the labour of the retail dealer, and of many others, whom it is unnecessary further to particularize. **The aggregate sum of these various kinds of labour, determines the quantity of other things for which these stockings will exchange.”**

(Ricardo, *Principles*, chap 1, section iii)

The Ricardian theory of value

3. Embodied labour as the determinant of value

- In short, the more labour a commodity requires for its production—both current and past labour—the higher its value.
- The **labour embodied** value of a commodity reflects the **difficulty of producing** it.

1. The Ricardian theory of value

4. The issue of labour heterogeneity



“In speaking, however, of labour, as being the foundation of all value (...) I must not be supposed to be inattentive to the **different qualities of labour, and the difficulty of comparing** an hour's or a day's labour, in one employment, with the same duration of labour in another.” (*Principles*, Chap. 1, section 2)

The Ricardian theory of value

4. The issue of labour heterogeneity

Indeed:

- How can the value of commodities be based on labour when, in reality, labour **differs in intensity, difficulty, and quality**?
- How can labour serve as a **homogeneous** determinant of value when actual labours (i.e. different trades) are **heterogeneous**—different in kind?

The Ricardian theory of value

4. The issue of labour heterogeneity

Ricardo:

- This important theoretical problem... is resolved in practice!
- The “**market**” automatically adjusts for labours of different qualities, **producing a “scale”** on which these types of labour are directly evaluated and compared.
- By scale, we mean an **informal wage grid** that emerges from daily transactions. Ricardo :

The Ricardian theory of value

4. The issue of labour heterogeneity

- “The estimation in which different qualities of labour are held, comes soon to be adjusted in the market with sufficient precision for all practical purposes, and depends much on the comparative skill of the labourer, and intensity of the labour performed. The scale, when once formed, is liable to little variation. **If a day's labour of a working jeweller be more valuable than a day's labour of a common labourer, it has long ago been adjusted, and placed in its proper position in the scale of value.**” (*Principles*, chap. 1 section II)

The Ricardian theory of value

4. The issue of labour heterogeneity

- Yet Ricardo remains vague about how this scale is produced.
- How could “markets” faithfully reflect the qualities, intensities, and hardships of actual labours?
- This is a **major difficulty** faced by the labour theory of value, which Marx will later attempt to resolve.

The Ricardian theory of value

5. Convergency of market prices towards natural prices



“In making labour the foundation of the value of commodities, and the comparative quantity of labour which is necessary to their production, the rule which determines the respective quantities of goods which shall be given in exchange for each other, we must not be supposed to deny **the accidental and temporary deviations of the actual or market price of commodities from this, their primary and natural price.**” (*Principles*, chap. 4)

The Ricardian theory of value

5. Convergence of market prices towards natural prices

- **Natural Price:** determined by the **quantity of labour embodied** in the production of a commodity.
⇒ It is an ideal or theoretical price, independent of demand and temporary market conditions.
- **Market Price:** the price at which a commodity is actually sold.
⇒ It **fluctuates with supply and demand** and is independent of the conditions of production.

The Ricardian theory of value

5. Convergence of market prices towards natural prices

- In the *Wealth of Nations*, Smith already argued that market prices tend to converge towards natural prices, a process he illustrated through the metaphor of gravitation:



“The natural price, therefore, is, as it were, the central price, to which the prices of all commodities are continually gravitating. Different accidents may sometimes keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this centre of repose and continuance, they are constantly tending towards it.” (WN, book I, chap. 7)

The Ricardian theory of value

5. Convergence of market prices towards natural prices

- Ricardo takes up Smith's distinction between natural and market prices.
- In addition, he also adopts the idea that the market price of each commodity tends to converge towards its natural price.
- Whenever market prices “accidentally” deviates from the natural prices, they ultimately return to them.

The Ricardian theory of value

5. Convergence of market prices towards natural prices

- Let's first denote (\mathbf{p}) the market price of a commodity and (\mathbf{p}^*) its natural price.
- Regarding incomes¹, just like for commodities, there exists:
 - a natural rate of profit (\mathbf{r}^*) = the “ordinary” profit rate such that the market price of the commodity sold in the sector equals its natural price.
⇒ when $\mathbf{p}=\mathbf{p}^*$ then sector's profit rate is \mathbf{r}^*

The natural rate of profit tends to be the same across all sectors of the economy (uniform ordinary profit rate).

- If the current profit rate (\mathbf{r}) of a sector \neq natural profit rate (\mathbf{r}^*), it means the market price (\mathbf{p}) of the commodity sold in that sector differs from its natural price (\mathbf{p}^*).

1. There exist also a natural and a current of market price of labour, as we will see later

The Ricardian theory of value

5. Convergence of market prices towards natural prices

Cause of the convergence of market prices toward natural prices
(and the tendency toward uniform profits)

=

Capital transfer

- Illustration with two sectors :
 - Silk sector: experiences an **increase in demand** due to a fashion change
 - Wool sector: falls out of fashion, leading to a **decrease in demand**

The Ricardian theory of value

5. Convergence of market prices towards natural prices

- “Let us suppose that all commodities are at their natural price, and consequently that the profits of capital in all employments are exactly at the same rate (...) **Suppose now that a change of fashion should increase the demand for silks, and lessen that for woollens;** their natural price, the quantity of labour necessary to their production, would continue unaltered, but **the market price of silks would rise, and that of woollens would fall;** and consequently the profits of the silk manufacturer would be **above**, whilst those of the woollen manufacturer would be **below, the general and adjusted rate of profits**. Not only the profits, but the wages of the workmen, would be affected in these employments. This increased demand for silks would however soon be supplied, **by the transference of capital and labour from the woollen to the silk manufacture;** when the market prices of silks and woollens would **again approach their natural prices**, and then the usual profits would be obtained by the respective manufacturers of those commodities.”
(*Principles*, chap. 4)

The Ricardian theory of value

5. Convergence of market prices towards natural prices

REMINDER

- r^* = natural rate of profit in the economy
- p^* = natural price of the commodity produced in the sector

and

- r = current profit rate of a sector
- p = market price of the commodity produced in the sector

The Ricardian theory of value

Silk sector	Wool sector
Equilibrium $D_s = S_s$, $p = p^*$ and $r = r^*$	Equilibrium $D_w = S_w$, $p = p^*$ and $r = r^*$
demand rises $\rightarrow D_s > S_s$	demand falls $\rightarrow S_w > D_w$
p increases $\rightarrow p > p^*$	p decreases $\rightarrow p < p^*$
r increases $\rightarrow r > r^*$	r decreases $\rightarrow r < r^*$
More K invested	Less K invested
<ul style="list-style-type: none"> - Increase in output such that S_s meets D_s and p converges to p^* - Decrease in the rate of profit r, which converges to r^* 	<ul style="list-style-type: none"> - Decrease in output such as S_w meets D_w et p converges to p^* - Increase in the rate of profit r which converges r^*

Capital flows from the wool sector to the silk sector

The Ricardian theory of value

5. Convergence of market prices towards natural prices

Cause of the convergence of market prices towards natural prices

=

Capital transfer

- Conclusion: Any deviation of (\mathbf{p}) above or below (\mathbf{p}^*) triggers a reallocation of capital and output between sectors, which tends to bring prices back to their “natural” level.

The Ricardian theory of value

5. Convergence of market prices towards natural prices



Capital transfer does not necessarily imply “free entry.”

Ricardo emphasizes the role of **financial intermediation** in reallocating supply between sectors and in the convergence of market prices towards natural prices.

The Ricardian theory of value



“When the demand for silks increases, and that for cloth diminishes, **the clothier does not remove with his capital to the silk trade, but he dismisses some of his workmen, he discontinues his demand for the loan from bankers and monied men;** while the case of the silk manufacturer is the reverse: he wishes to employ more workmen, and thus his motive for borrowing is increased: **he borrows more, and thus capital is transferred from one employment to another, without the necessity of a manufacturer discontinuing his usual occupation.**” (*Principles*, chap. 4)

The Ricardian theory of value

5. Convergence of market prices towards natural prices

While classical analysis focuses much more on production and distribution than on market mechanisms *per se*—that is, on supply–demand relationships—this chapter illustrates **three supposed virtues** of liberalism and **decentralized capital allocation decisions** (cf. the “invisible hand” in the *Wealth of Nations*):

- The **convergence of market prices toward natural prices**, i.e. the convergence of actual values toward ideal values.
- The **equalization of profit rates** across different branches of production, a condition for the overall coherence of the economic system.
- The **ability of supply to adapt to the structure of demand** and to its fluctuations.

The Ricardian theory of value

5. Convergence of market prices towards natural prices

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⇒ **“consumer sovereignty” (Hutt, 1936) vs. “dependence effect” (Galbraith, 1958)**

The Ricardian theory of value

5. Convergence of market prices towards natural prices

- “consumer sovereignty” vs. “dependence effect”
⇒ an example of **debate on cause-and-effect relationships**
- “consumer sovereignty” ⇒ **demand drives supply**

Supply adapts to and reflects consumers’ preferences (W. H. Hutt, *Economists and the Public: A Study of Competition and Opinion*, 1936)

- “dependence effect” ⇒ **supply drives demand**

“**Production** (...) actively through advertising and related activities, **creates the wants it seeks to satisfy**. (...) As a society becomes increasingly affluent, wants are increasingly created by the process by which they are satisfied.”

(J.K. Galbraith, *The Affluent Society*, 1958)

End of Part I on Ricardo (value and prices)
Part II (to follow): distribution