Twitter Thread by @AdamSmithWorks



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OK! Who's ready to talk at great length and in great detail about prices? #AdamSmith, that's who! (I.v) #BuckleUp because this is the first of three chapters Smith prepped us for yesterday. (I.v) #WealthOfTweets #SmithTweets

We're about get into some #LaborTheoryOfValue. (I.v.1–18) We, the SmithTweeters, are firmly on board with the #MarginalRevolution (and we are fans of @MarginalRevolt). But Smith's theory is more complex than is often recognized. #WealthOfTweets #SmithTweets #ValueHowDoesItWork

The caricature version of the #LaborTheoryOfValue is that the longer you work on a thing, the more it must be worth. This is obviously wrong, and Smith (and Marx, btw) would agree that it's wrong. (I.v.1–18) #WealthOfTweets #SmithTweets

(We know this version of the #LaborTheoryOfValue is wrong because we once carved a giant statue of #AdamSmith out of haggis. Took us hours. No one wanted to buy it. Go know!)

Again: We think the #LaborTheoryOfValue as it's actually presented is wrong, too, but we should at least understand how it's wrong and where it's right. (I.v.1–18) #WealthOfTweets #SmithTweets

Whether you're rich or poor depends on purchasing power, which is really just the ability to command more labor. Exchange allows (and requires) us to benefit from the labor of others and not just ourselves. (I.v.1) #WealthOfTweets #SmithTweets #WeAreAllConnected

Smith defines the "real price" of a good as the toil and trouble that's put into producing it, "which it can save himself, and which it can impose on other people." (I.v.1) #WealthOfTweets #SmithTweets

For this reason, wealth is power because it gives us the power to direct the labor of others, even as it makes us dependent on them. (I.v.3) #WealthOfTweets #SmithTweets #WeAreAllConnected

Sure, says Smith, labor is where the real value in all commodities lies. But! Labor hours are not how we typically measure value. (We told you so.) This is in part because things like hardship and ingenuity matter. (I.v.4) #WealthOfTweets #SmithTweets #LaborTheoryOfValue

We don't need to be completely accurate when measuring labor because we have "the higgling and bargaining of the market" which "though not exact, is sufficient for carrying on the business of common life." (I.v.4) #WealthOfTweets #SmithTweets

In other words: real value is a thing, but it's hard to measure. For practical purposes, we rely on exchange value. (I.v.5) #WealthOfTweets #SmithTweets

And exchange value? That's measured in terms of the goods and services being exchanged. They're the product of labor, but not measured in labor. Remember: it's hard to make change when bartering (especially cows), so we use money. (I.v.5–6) #WealthOfTweets #SmithTweets

But money is complicated! In Smith's time it was backed by gold, sliver, and copper—all of which had market values that vary with the country's supply of those metals. (I.v.7) #WealthOfTweets #SmithTweets

(And we can't blame metal-backed money for that. Modern-day currencies vary in price relative to each other and in terms of purchasing power over time.) (I.v.7) #WealthOfTweets #SmithTweets

This isn't even a problem that just affects money. All the prices are changing all the time! That's why it would be great if there were an objective measure of value to compare things to. (I.v.7) #WealthOfTweets #SmithTweets

This is why Smith wants to use labor to measure value, even if it's not how we really do things. "Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer." (I.v.7) #WealthOfTweets #SmithTweets

(Dear Readers, one of the SmithTweeters is Canadian and let her just say that putting those Us into "labour" for the purposes of a direct quote really hit the spot. #BritishEnglishFTW)

But wait! Didn't Smith say we ■■■'■ usefully compare quantities of labor? (Don't go back to check. He totally did.) (I.v.7) #WealthOfTweets #SmithTweets #LaborTheoryOfValue

Smith was ■■■■ particular with his wording. So. Many. Revisions. He's trying to perfectly express his ideas. So what, EXACTLY, did he say? (I.v.7) #WealthOfTweets #SmithTweets #LaborTheoryOfValue

Smith is talking about quantities of labor by a particular worker from the perspective of that worker. Not some general measurement of labor that applies to all workers. (I.v.7) #WealthOfTweets #SmithTweets #LaborTheoryOfValue

So *to the worker*, equal quantities of work are comparable. How much time and effort did they have to put into getting what they want? That's what really matters to them. (I.v.7) #WealthOfTweets #SmithTweets #LaborTheoryOfValue

There is an important truth here! It's just not the kind that economists can plug into equations and models. (I.v.7) #WealthOfTweets #SmithTweets #LaborTheoryOfValue

Smith reminds us of the difference between the real and nominal price of labor: The real price is how many things the laborer wants/needs and can get for labor. The nominal price is how much money he can get. (I.v.9) #WealthOfTweets #SmithTweets

A laborer is wealthy or poor based on whether they can get what they want/need, regardless of how much money it costs. Money is sort of beside the point. That's why Smith focuses on labor. #WealthOfTweets #SmithTweets #ValueHowDoesItWork

And... you know what? That's a lot for one day. We'll finish up Chapter 5 tomorrow. #SmithTweetersNeedSomeTea #WealthOfTweets #SmithTweets