Understanding Smith's theory of distribution: the determination of land rent as a residual magnitude

The objective of this paper is to deepen the understanding of Adam Smith's theory of distribution and by doing so to unveil his adherence to the hypothesis of a given social product and technique in use determined by labor productivity and past accumulation of capital when determining short term fluctuations of the distributive shares and when discussing taxation. The paper can be directly linked to Sraffa's 1951 and 1960 proposition of the existence of a classical approach to value and distribution fundamentally different from posterior marginalist analysis. In the paper I refute the existence in “Wealth of Nations” of an “additive theory of value”, a proposition first advanced by Marx and shared by many economists, including Sraffa. According to this interpretation, Smith neglected the implications of a given social product and technique in use as a binding constraint to the distributive shares when determining the natural prices of commodities. Starting in the nineties, some of Sraffa's followers began to question Marx's original proposition by identifying a theory of distribution compatible with the hypothesis of a given social product in Smith's narrative. This paper is part of this ongoing effort and it shows that the key to understand Smith's theory of distribution lies in the correct identification of the rent of land as a residually determined distributive share and of real wages determined exclusively in terms of the most common agricultural produce of the country. As a consequence, the rent of land is determined independently of relative prices while wages and profits are allowed a degree of liberty in their relative movements, the acknowledgment of which dissolves the perceived incompatibility of various passages of “Wealth of Nations” – specially the ones concerning the competition of capitals – with the hypothesis of a given social product and technique in use biding distribution, while completely denying the “adding-up” interpretation. It is also shown that the residual determination of land rent demands the exogenous determination of profits to reach a definite solution as to how profits and land rents share the surplus. Smith's “competition of capitals” cannot be interpreted then as a failure to see the biding constraint of distribution, nor it can be used as an evidence of the “additive theory of value” interpretation. Therefore, once the residual land rent and the “agricultural” real wage are identified, Smith can be unambiguously included as belonging to the surplus approach to value and distribution. This article contains three main parts: i) it starts with a brief presentation of the origins of the “additive theory of value” interpretation and recent developments in the sraffian literature; ii) it then identifies in Smith's text the hypotheses of a residual rent of land and of a real wage composed of agricultural products where it is shown that once technology is given, land rent is determined residually by the other distributive shares and; iii) it discusses Smith's theory of value and distribution internal logic and consistency.