CHAPTER III

DAVID RICARDO
If Adam Smith was the founder of the classical thought, Ricardo may be crowned as its defender. The partial harmony of Adam Smith in the interests of different classes encouraged the disciple Ricardo to discuss it fully. The phenomena of class-conflict can very clearly be read from his 'Principles' and Correspondence with this contemporary thinker. Paul M. Sweezy comments, "The classical economists were also very much interested in the economic roots of class. Conflicts - in a sense this is exactly what 'the distribution of the produce of the earth' meant to Ricardo".

Ricardo concentrated his mind to the distribution problem instead of production and pointed out to Malthus that the former inquiry is most important. Ricardo says, "Political Economy you think is an inquiry into the nature and causes of wealth - I think it should rather be called an enquiry into the laws which determine the division of the produce of industry.

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1. The Theory of Capitalist Development, Principles of Marxian Political Economy, Monthly Review Press, New York (1956), p. 15. Karl Marx also writes "Ricardo discovers and proclaims the economic contradictions between the classes - as shown by the intrinsic relations - and hence the historical struggle and process of development is grasped at its roots and disclosed in economic science. Carey, therefore denounces him as the father of communism." (Theories of Surplus Value (translated from the German by G.A. Bonnaf and Emile Burns) Lawrence & Wishart, London, 1951, p. 204."
amongst the classes who concur in its formation... Everyday I am more satisfied that the former enquiry is vain and delusive and the latter only the true objects of the science.\(^1\)

He was concerned with the Progress of a capitalist country and the distribution of wealth along with the progress. In a letter to Malthus, he says "I wish much to see a regular and connected statement of your opinions on what I deem the most difficult, and perhaps the most important topic of Political Economy, namely the progress of country in wealth and the laws by which the increasing produce is distributed."\(^2\)

There are three classes in his system i.e., The landlords, capitalists and the labour class in which the produce is divided. In the preface of his Principles he writes, "The produce of earth - all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community; namely, the Proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated."\(^3\)

1. Ricardo to Malthus (The Works And Correspondence of David Ricardo, Edited by Piero Sraffa with the collaboration of M.H.Dobb, Cambridge, (At the University Press for the Royal Economic Society, 1953), Vol.VIII pp.278-279 (hereafter referred to as works of David Ricardo). Also elsewhere he writes, "Mr. Malthus and I continue to differ in our views of the Principles of Rent, Profit and Wages. These Principles are so linked and connected with everything belonging to the science of Political Economy that I consider the just view of them as of the first importance." (In a letter dated October 29, 1815 to Trower Vol. VI, pp.315-16

2. Works of David Ricardo, Vol.VII, p.24. (Some economists have lamented that Ricardo has done great harm to the science of Political Economy by shifting the emphasis from the nature and causes of the wealth of nations which should be the main focus of attention in the study of growth, to the causes

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Out of these three classes only two are productive
namely, the capitalist and the labour class. He cleared this
point and wrote, "In his (J.B.Say) productive services he
includes the services rendered by land, capital, and labour;
in mine I include only capital and labour, and wholly exclude
land." Land has been excluded because it serves 'generously
and gratuitously'. Hence cost of production consists with wages
and profit. Rent does not include in price for it is not price
determining but price determined. "Corn is not high because a
rent is paid, but a rent is paid because corn is high ...".

While discussing the relative shares of the factors
of production from the produce Ricardo found a conflict of
interests. This conflict is found for a temporary period
between labourers and capitalists in the introduction of

determining the distribution of wealth. For instance, John
H. Williams in his Presidential address to the American
Economic Association suggested that Ricardo shifted the
bogy of Economics from the track of economic growth to that
of the narrow problem of distribution of national income
among the classes of society(Cf. American Economic Review,
March 1952, pp.4-5) These remarks are unfounded because
Ricardo was not concerned with the narrow question of
distribution of wealth in a static society. Moreover, the
changed circumstances of England and contemporary events
required this change.(Refer to Frank Knight, "The Ricardian
Theory of Production and Distribution" Canadian Journal
of Economics and Political Science, May 1935, p. 17.)


1. Ibid., pp. 283-84.
2. Ibid., p. 74.
machinery, and again between two proprietor classes - landlord and capitalist. It has become a controversial point amongst the authorities whether Ricardo was concerned with the conflict of Labour and capitalist, or between the two proprietor classes, Marx, for example writes "in the preface, "Let us take England Its Political Economy belongs to the period in which the class-struggle was as yet undeveloped. Its last great representative, Ricardo, in the end, consciously makes the antagonism of class -interests of wages and profits of profits and rent, the starting point of his investigations, naively taking this antagonism for a social law of Nature". On the other hand, Mohammad Shabbir Khan, contradicts that, "it existed only between the propertied classes and not between the propertied and the propertless classes". Sweezy, one of the most important Marxist, has clearly argued that Ricardo was concerned with the conflict between the capitalists and the landlords though he does not clearly specify the implications.

1. Preface to the Second German Edition, Capital, A Critical Analysis, (Capitalist Production, Vol. I (Foreign Language Publishing House, Moscow 1954) p. 14, also Professor Keynes tells of the late Professor Foxwell that he once declined to deliver a presidential address to the Royal Economic Society about Ricardo on the ground that, "his onslaught on the author of the dreadful heresy of a conflict of interest between capital and labour would have been too provocative" (Quoted by Maurice Dobb "of Political Theory and Socialism, Collected Papers, London, Routledge & Paul Ltd.,(1955) p. 93(in).

2. Ricardo's Theory of Distribution, Faculty of Arts Publication Series -4, Muslim University, Aligarh(India)1960,p.100.
of his statement in that it is a conflict between the two
monied classes and not between the 'haves' and the 'have nots'.
He says, "but social antagonism which occupied most of their
attention, both intellectual and emotional was the conflict
between industrial capitalist and landlords". Let us analyse
their viewpoints to reach to the true position.

Marx, Engels and other argue that Ricardo advocated
for labour theory of value. For example Marx writes, "The
foundation, the starting point for the physiology of the
bourgeois system - for the understanding of its internal
organic coherence and life process - is the determination of
value by labour time. Ricardo starts with this and compels
science to leave its old beaten track". For the measure of
value labour always meant to him as labour hours necessary to
produce a commodity and not the wages paid to the labourers.
He writes, "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

1. The Theory of Capitalist Development: Principles of Marxist
Similar views have been expressed by James Bonar, Philosophy
and Political Economy: In some of their Historical
Relations, London George Allen and Unwin Ltd. (1927), p. 339,
also A. F. Lerner, "From Vulgar Political Economy to Vulgar

2. Theories of Surplus-value, p. 203.
and not on the greater or less compensation which is paid for that labour. 1 Thus, it appears to Karl Marx that Ricardo was aware of the surplus value. 2 The labour is not paid the full worth which he creates. He is paid according to the cost of production principle of labourer i.e., equal to his subsistence means to upkeep himself and foster his race. Thus a surplus is created that is: Production equal to labour hours (by labour) - wages paid = surplus value created by labour. This surplus produce is appropriated by the capitalist. Ricardo writes to Malthus, that the increase in the productive power of labour will not in the least increase the wages of the labourers but, "This increase would be exclusively enjoyed by the owner of the stock". 3 Thus "It is very seldom that the whole additional produce attained with the same quantity of labour falls to the lot of the labourers who produce it". 4

Having discussed his theory of value Ricardo proceeds to the discussion of the distribution between wage and profit.

1. Works of David Ricardo, Vol.I, p.11 (Also: In a letter to J.B. Say he writes, "I do not say that it is the value of labour which regulates the value of commodities, for that is an opinion I do all in my power to overthrow; but I say that it is the comparative quantity of labour necessary to the production of commodities, which regulates their relative value"(Works of David Ricardo, Vol.VIII, p.149).

2. Karl Marx writes "Ricardo starts from the actual fact of capitalist production. The value of labour is smaller than the value of the product which it creates. The value of the product is therefore greater than the value of labour which produces it or the value of the wages. The excess of the value of the product over the value of the wages is equal to the surplus value. Ricardo says wrongly the profit but do previously noted he here identifies profit with surplus value and is in fact speaking of the latter"(Theories of Surplus Value, p.107).


His whole system proves the inverse relation between wages and profits. With the progress of the economy profits have a tendency to fall and wages to rise. Ricardo deemed wages as payment from profits. He wrote to Malthus, "The wages themselves may be considered as part of the profits of stock."\(^1\) Therefore, the proportion which might be paid for wages, is of the utmost importance in the question of profits; for it must at once be seen, that profits would be high or low exactly in proportion as wages were low or high.\(^2\) He wrote to McCulloch "The greater the portion of the result of labour that is given to the labourer, the smaller must be the rate of profit, and vice versa."\(^3\) Thus, "If the corn is to be divided between the farmer and the labour, the larger the proportion that is given to the latter, the less will remain for the farmer. So if cloth or cotton goods be divided between the workmen and the employer, the larger the proportion given to the farmer, the less remains for the latter."\(^4\) Ricardo, therefore, infers that profits in fact depends on high or low wages, and on nothing else.

The clash of interest between labourer and capitalist is all the more important in the use of machinery. He writes to McCulloch, "In the case of machinery the interests of master and workmen are frequently opposed."\(^5\) The capitalists

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find out a way to check the diminishing rate of profit in the labour saving machines, "Economy in the use of labour never fails to reduce the relative value of the commodity, whether the saving, in the labour necessary to manufacture of the commodity, itself, or in that necessary to the formation of the capital, by the aid of which it is produced".¹ F.A. Hayek regards it, "The familiar Ricardian proposition that a rise in wages will encourage capitalist to substitute machinery for labour"². With the aid of machinery the productive power of labour increases and hence the surplus product. Profits are augmented.

The substitution of machine for labour creates imbalance between demand for and supply of labour. More and more labour become redundant and hence thrown on to the street. Ricardo writes, "but I am convinced, that the substitution of machinery for human labour, is often very injurious to the interests of the class of labourers".³ He clarifies that the demand for labour depends upon circulating and not on the fixed capital. In this connection he quotes Barton who wrote "The demand for labour depends on the increasing of circulating and not of fixed capital. Were it true that the proportion between these two sorts of capital is the same at all times, and in all countries, then, indeed, it follows

that the number of labourers employed is in 'Proportion to the Wealth of the State. But such a position has not the semblance of probability. As arts are cultivated, and civilisation is extended fixed capital bears a larger and larger proportion to circulating capital." Barton supports his argument with the comparison of British muslin and that of India, where fixed capital is greater in the former and circulating in the latter. He thus arrives, "It is easy to conceive that under certain circumstances, the whole of the annual savings of an industrious people might be added to fixed capital, in which case they would have no effect in increasing the demand for labour." He thought the truth as that of the truths of geometry and regretted that as why he could not see them so far. Thus, every increase of the fixed capital adds to the problem of unemployment. Ricardo writes "the opinion entertained by the labouring class, that the employment of machinery is frequently detrimental to their interest, is not founded on prejudice and error, but is conformable to the correct principles of political economy." Sraffa terms this view, "The most revolutionary change in edition 3 is the new chapter on Machinery, in which Ricardo retracts his previous opinion that the introduction of


machinery is beneficial to all the different classes of society.\textsuperscript{1} Marx considers as, "one of the greatest merits of Ricardo to have seen in machinery not only the means of producing commodities, but of creating a 'redundant population'\textsuperscript{2}. And Sweezy summarises, 'There Ricardo established by a somewhat clumsy but logically watertight argument that labour saving machinery 'set free' workers without setting free variable capital for their employment depends primarily on additional accumulation. Though Ricardo did not say so, it is consistent with the reasoning to assume that the rate of displacement exceeds the rate of reabsorption as a result of new accumulations'.\textsuperscript{3}

Let us now test whether the above line of thinking is in line with that of Ricardo's own thinking and spirit, and whether there really existed a clash of interests between the capitalists and the labourers. We will first examine the clash of interest due to the introduction of machinery.

Economists do not agree with those who argue that Ricardo emphasised the introduction of machinery is always injurious to the interests of the labourers. Professor Mohammad Shabbir Khan for example writes, "nowhere else has Marx greatly misunderstood Ricardo than at this point".\textsuperscript{4} Ricardo was in fact visualising a possibility which arose in the short run where the sudden introduction of machinery could be

\begin{itemize}
  \item \textit{Op. cit.}, p. 89.
  \item \textit{Op. cit.}, p. 112.
\end{itemize}
harmful to the labourers. He himself has said, "All I wish to provide is, that the discovery and use of machinery may be attended with a diminution of gross produce; and whenever that is the case it will be injurious to the labouring class, as some of their number will be thrown out of employment, and population will become redundant, compared with the funds which are to employ it".¹

And to prove that he took a "strong case" in which the improved machinery was suddenly discovered and used in the same branch where the old method was being followed. And that led him to believe that the cases are possible in which the introduction of machinery lead not only to the production of commodities but also to the redundant population: He says "To elucidate the principle, I have been supposing, that improved machinery is suddenly discovered, and extensively used, but the truth is, that these discoveries are gradual and rather operate in determining the employment of the capital which is saved and accumulated, than in diverting capital from its actual employment".²

Above all we may note that whereas Ricardian analysis in its general structure is concerned with the long run

² Ibid., p. 395
tendencies,¹ in the particular example which he laid down he thought of only the immediate effect - and that obviously was the displacement of labour. But that was not the condition of equilibrium - rather it was its disturbance. The condition of equilibrium which can be compared with the original one is where the adjustments to this disturbance have taken place. And for that situation Ricardo points out, "I have before observed, too, that the increase of net incomes, estimated in commodities which is always the consequence of improved machinery, will lead to new savings and accumulations. These savings, it must be remembered are annual, and must soon create a fund, much greater than the gross revenue, originally lost by the discovery of the machine, when the demand for labour will be as great as before, and the situation of the people will be still further improved by the increased savings which the increased net revenue will still enable them to make".²

¹ Ricardo writes to Malthus, "It appears to me that one great cause of our difference in opinion .. is that you have always in your mind the immediate and temporary effects of particular changes - whereas I put these immediate and temporary effects quite aside, and fix my whole attention on the permanent state of things which will result from them. Perhaps you estimate these temporary effects too highly, whilst I am too much disposed to under value them". (Works of David Ricardo, Vol. VII, p. 120).

² Ibid., Vol I, p. 396. The Marxists here will proceed to support Marx's position by quoting from Ricardo's letter to McCulloch when on the latter's contention that he will take my (his) stand with -- the Mr. Ricardo of the first not of the third edition". (Works of David Ricardo, Vol. VIII, p. 385). Ricardo replies "... I have said that when a manufacturer is in possession of a circulating capital he can employ with it a greater number of men, and if it should suit his purposes to substitute the fixed capital of an equal value for this continue.
This shows that Marx did not pay any attention to the modifying position from the 'possible strong case' elaborated by Ricardo to show the result of the introduction of machinery. "It is surprising to note" writes Professor Khan, "that Marx did not attribute the so-called compensatory effect to Ricardo which the latter was so careful to point out and which arose as a result of the increased savings due to the cheapening of the commodities produced with the help of machinery".

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continues...

circulating capital, it will be inevitably followed by a necessity for dismissing a part of his workmen, for a fixed capital cannot employ all the labour which it is calculated to supersede. I confess that these truths appear to me as demonstratable as any of the truths of geometry, and I am only astonished that I should so long have failed to see them" (Ibid., p. 390) But this letter of Ricardo which he wrote to McCulloch does not in any way contradict the modifying sentence which he has presented above.

1. Op.cit., p.113. Marx says, "James Mill, McCulloch, Torrnes Senior, John Stuart Mill, and a whole series besides of bourgeois political economists, insist that all machinery that displaces workmen, simultaneously and necessarily sets free an amount of capital adequate to employ the same identical workmen" (Capital, Vol. I, p. 438) and adds a footnote "Ricardo originally was also of this opinion, but afterwards expressly disclaimed it, with the scientific impartiality and love of truth characteristic of him. See I.C., Ch. XXI 'On Machinery (Ibid., p. 438f). It is surprising to note that in the same chapter of Machinery a para in Ricardo occurs which says that the extra saving due to the cheapening of commodities will re-employ the displaced labourers."
Thus the introduction of machinery is supposed to be injurious to the labouring class only in the short run and its usefulness in the long run, which is essentially Ricardian problem, has hardly been doubted. We do not thus agree with Marx and Sraffa. It may, therefore, be concluded that although the introduction of the chapter on Machinery surely meant a change in Ricardian thinking, it was not at all revolutionary.

Let us now critically examine the validity of the argument that wages were the pivotal point for Ricardo's distribution theory. These arguments are based on the misconception of the Ricardo's theory of distribution. If we analyse Ricardo's profit theory we will see that rent was the main concerned for Ricardo to understand the theory of profit. The theory of profit was incomplete without the integration of the theory of rent in the structure. Ricardo when he says, "In treating on the subject of the profits of capital it is necessary to consider the principle which regulate the rise and fall of rent; as rent and profits, it will be seen, have a very intimate connection with each other".

If we read the evolution of Ricardian thinking we see that all the published works of Ricardo - whether in the form of pamphlets or letters - before August 1813 were concerned with the problems related to currency only. In August 1813, we find

1. Refer, Mohammad Shabbir Khan, op.cit., p. 41.
for the first time Ricardo writing to Malthus about the theory of profit. This problem was faced by Ricardo in the form in which it persisted throughout his later writings on pure theory of economics - why the rate of profits falls down through time along with the process of accumulation, and whether it is possible by one measure or the other to check the fall in rate. From the very beginning Ricardo was convinced that the expansion of foreign trade would not elevate the rate of profits. This is a negative statement indeed, and it was necessary for Ricardo to put forward some positive statement so the theory could explain the real cause of the determination of the rate of profits and suggest whether something could be done about the falling tendency of profits. This did not take much time and in a letter dated as early as August 17, 1813 he writes to Malthus: "I have little doubt however, that for a long period, during the interval you mention, there has been an increased rate of profits, but it has been accompanied with such decided improvements of agriculture both here and abroad - for the French revolution was exceedingly favourable to the increased production of food, that it is perfectly reconcilable to my theory. My conclusion is that there has been a rapid increase of capital which has been prevented from showing itself in a low rate of interest by new facilities in the production of food." This shows clearly that for Ricardo

the difficulty of the production of food appears to be the reason for the falling tendency of the rate of profit.

From a perusal of the letters written in the beginning of 1814, it appears that Ricardo has written some papers on profits of capital, which he had shown to Malthus Trower, and Mill (Cf. Trower's letter to Ricardo, dated March 2, 1814). Unfortunately these papers have not survived and it is difficult to guess what ideas Ricardo might have elaborated in them. But happily the central theme of the papers has been summarised by Ricardo in his letter to Trower dated March 8, 1814 where the former says to the latter, "Interest rises only when the means of employment for capital bears a greater proportion than before to the capital itself, and falls when the capital bears a greater proportion to the arena, as Mr. Malthus has called it; for its employment. On these points I believe we are all

1. Ibid., p. 102.

2. It is interesting to note that Sraffa in his note of An Essay on Profit contends that these papers, as it appears to him from the letter to Trower on March 8, 1814 contain the fully developed Ricardian theory of profit. He says, "the theory of profit, which was to appear in the pamphlet of the following year, was already fully developed." Works of David Ricardo, Vol. IV, p. 3. However, the theory of profit which Ricardo elaborated in his pamphlet later contains his elaborated theory of rent as an integral part and it is improper to say that the summary which does not even mention rent contains the fully developed theory of profit.
agreed, but I contend that the arena for the employment of new capital cannot increase in any country in the same or greater proportion than the capital itself, unless there be improvements in husbandry, or new facilities be offered for the introduction of food from foreign countries - that in short it is the profits of the farmer which regulate the profits of all other trades - and as the profits of the farmer must necessarily decrease with every augmentation of capital employed on the land, provided no improvements be at the same time made in husbandry, all other profits must diminish and therefore the rate of interest must fall. This shows that Ricardo from the very beginning considered the law of diminishing returns in agriculture as the foundation-stone of his theory of profits, and that the effects at checking the operation of this law, whatever the form they might take, would be acting as a countervailing agency for the fall of rate of profits. Subsequently in a letter on June 26, 1814, he writes to Malâhus "The rate of profits and the interest must depend on the proportion of production to the consumption necessary to such production, this again essentially depends upon the cheapness of provisions, which is after all, whatever

intervals we may be willing to allow, the greater regulator of the wages of labour".¹ This statement makes it obvious that Ricardo was quite sure that the profits were intimately related to wages of labour. And since the rise in the price of food along with the process of accumulation and the consequent operation of the law of diminishing returns the wages were to increase, the profits were bound to diminish. But after all why must the wages increase with the rise in the price of food was not quite clear to Ricardo. There was a theoretical possibility of the capitalists pushing down the real wage rate whenever there was a rise in the price of food and maintain the rate of profits. Thus Professor Khan writes, "It was necessary for Ricardo to clearly indicate that there was some theoretical justification for the capitalists inability to do so".² This deficiency, we would note, he made up only when he wrote the ‘Principles of Political Economy and Taxation.’

While tracing the evolution of Ricardo’s thinking it is very interesting to note that Ricardo during this period was not very clear on the proposition which he later on laid down, that every rise in wages would lead to a fall in profit and vice-versa. While controverting with Malthus in one of his letters he writes to him "It appears to me that the difficulty and expense of procuring corn will necessarily regulate the demand for the products of capital, for, the demand must essentially depend on the price at which they can be afforded, and the prices of all commodities must

¹. Ibid., p. 108.  ². Mohd. Shabbir Khan, op. cit., p. 22.
increase if the price of corn be increased". Now if this proposition is correct then there is no essential reason why with the rise in the price of corn the profits must fall; because if the rise in the price of corn leads to an increase in wage then it will also simultaneously leads to the rise in the prices of other commodities and therefore profits need not diminish. Sraffa here points out the possible explanation when he says, "In the Principles however, with the adaption of a general theory of value, it became possible for Ricardo to demonstrate the determination of the rate of profit in society as a whole instead of through the microcosm of one special branch of production". However, writes Professor Khan, "Sraffa's efforts to remove Ricardo's difficulty are only partially right because this position would be quite justified as long as it assumed that the profits in agriculture always determine the profits elsewhere". But difficulty will certainly arise if profits are determined by profits in manufacture. Ricardo has himself admitted it. He writes to

1. Ibid., P. 114 (underlined added).
2. Ibid., Vol. I, p. xxxii. This in fact means that before the writing of his Principles Ricardo used to consider the determination of profits through the microcosm of one special branch of production i.e. agriculture.
Malthus, "I thought you maintained that the high or low profits on commerce were totally independent of the amount of capital which might be employed on the land; consequently that high profits might continue as long as commerce was prosperous, whether that was for 20 or for 100 years. I now understand you to say, that the profits of commerce may take the lead, and may regulate the profits of agriculture for a period of some duration, possibly for 80 years.

I have always allowed that under certain circumstances profits on agriculture might be diverted from their regular course for short periods, so that we only appear to differ with respect to the duration of such profits; instead of 20 years I should limit it to about 4 or 5. When pressed by Malthus in his controversy during this time to the effect that it was the supply of and demand for capital and not the difficulty of the production of corn which was responsible for the falling tendency of the rate of profits, Ricardo argued that he considered the wants and tastes of mankind as unlimited (indicating his faith in the Sais' law of market) and that it was only the state of cultivation of land that was the permanent cause of the fall in profits (vide letter to Malthus dated 16, September 1814).

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2. Ibid., pp. 133-135.
From a perusal of subsequent Ricardo - Malthus controversy it is obvious that Ricardo does not mention the theory of rent. After the publication of Malthus's 'An Inquiry into the Nature and Progress of Rent and the Principles by which it is Regulated' Ricardo in his letter of February 6, 1815 writes to Malthus, "I have now read with very great attention your essay on the rise and progress of rent, with a view of selecting every passage which might afford us subject for future discussion. It is no praise to say that all the leading principles in it meet with my perfect assent, and that I consider it as containing many original views, which are not only important as connected with rent, but with many other difficult; points, such as taxation and ca & ca".1 Sraffa therefore infers, "when in February 1815 Malthus' pamphlets appeared, Ricardo was able to write within a few days his Essays on the influence of a Law Price of Corn on the Profits of Stock, by using his already developed theory of profits, incorporating Malthus' theory of rent, and adding a refutation of the protectionist arguments put forward by Malthus in his Grounds of an Opinion. It was published about 24, February, 1815".2 But Sraffa appears to be wrong because Ricardo raises two very important objections to the explanation. First, he does not agree with his contention that the improvements in

1. Ibid., p. 172.
agriculture are immediately beneficial to the landlords because he thinks that they benefit the farmers by obtaining the same quantity of produce with less labour and diminishing rent. Secondly, rents are not supposed by Ricardo to be due to the creation of wealth; they are rather due to wealth already created.

"Actually Ricardo's theory of profits without his theory of rent lacks one of the pillars on which the whole structure has been constructed". Obviously, Ricardo was aware of the law of diminishing returns; but having propounded his theory of profit on the basis of diminishing returns in agriculture a very pertinent question could be asked: What happens to the greater produce than that of the marginal plot of land which is produced on the earlier plots of land or due to earlier doses of labour and capital on the same land? And if the greater produce on the earlier plots of land or due to earlier doses of labour and capital could not be disposed of somehow then there would have been different profits on the different plots of land. And if agriculture, in general, determines the rate of profits elsewhere which rate of profits would have been the determining one. Only by incorporating the theory of rent with the theory of profit, it would be proved that the rate of profits on all plots of land was equal because whatever surplus there was on the earlier plots of land or due to earlier doses of labour and capital must have been paid in the form of rent. Therefore, it was only
by incorporating the theory of rent with the theory of profits that Ricardo could really explain the phenomenon of profits. Sraffa is very sure of what he says. He further remarks: "Indeed, the theory of profits presented in the pamphlet adds little to what was already contained in his letters of 1813 and 1814, before his attention has been directed to the connection between rent and profit". And here he adds a note from Patten where the latter says: "The law of rent came into Ricardo's system, not as a basis, but as a better proof of a theory already developed". It seems that the statement of Patten does not fully support Sraffa's contention that the theory of profits presented in the pamphlet adds little to what was already contained in his letters of 1813-14. Indeed the theory of rent was not the basis, yet it was an essential part of the theory of profits.

It can, therefore be inferred that Ricardo's pamphlet, An Essay on Profits, which was published on February 24, 1815, indicates a definite development in Ricardian thinking. It provides the necessary link in the development of his theory of profit by incorporating the

2. Ibid., p. 8 fn.
By incorporating the theory of rent with his preliminary ideas on the theory of profit, Ricardo is in a position to lay down a comprehensive theory of profits. It now appears to him that the profits at the stock fall down because of the difficulty of production of corn leading to the rise in the wages of labour. He however, argues that even if the rise in wages does not take place along with the process of accumulation, still the profits will fall because more and more labourers will

1. The fact that Ricardo's theory of rent was necessary for the development of his theory of profit can be clearly seen from the following statements from Ricardo's Essays on Profits:

(1) "On the land first cultivated, the return would be the same as before, namely, fifty per cent, or one hundred quarters of wheat; but, the general profits of stock being regulated by the profits made on the least profitable employment of capital on agriculture, a division of the one hundred quarters would take place, forty-three per cent or eighty-six quarters would constitute the profit of stock and seven per cent or fourteen quarters, would constitute rent" (Works of David Ricardo, Vol. IV, p. 13).

(2) "Thus by bringing successively land of a worse quality, or less favourably situated into cultivation, rent would rise on the land previously cultivated, and precisely in the same degree would profits fall; and if the smallness of profits do not check accumulation, there are hardly any limits to the rise of rent, and the fall of profit". (Ibid., p. 14).

(3) "The general profits of stock depend wholly on the profits of the last portion of capital employed on the land; if, therefore, landlords have to relinquish the whole of their rents they would neither raise the general profits of stock, nor lower the price of corn to the consumer. It would have no other effect, as Mr. Malthus has observed, than to enable those farmers, whose lands now pay a rent, to live like gentlemen, and they would have to expend that portion of the general revenue, which now falls to the share of the landlord" (Ibid., pp. 21-22). cont...
be employed for the production of corn while the value of the produce would continue to be the same he says, "Profits of stock fall only, because land equally well adapted to produce food cannot be procured; and the degree of the fall of profits and the rise of rents, depends wholly on the increased expense of production".

It, therefore, in the progress of countries in wealth and population, new portions of fertile land could be added to such countries, with every increase of capital, profits would never fall, nor rents rise.

If the money price of corn, and the wages of labour, did not vary in price in the least degree, during the progress of the country in wealth and population, still profits would fall and rents would rise; because more labourers would be employed on the more distant or less fertile land, in order to obtain the same supply of raw produce; and therefore the cost of production would have increased, whilst the value of the produce continued the same. 1

It is very interesting to note that at this stage Ricardo is confused and states two aspects of the same fact as two

The following statement from Ricardo shows how his theory was different from that of Malthus. "Mr. Malthus considers, that the surplus of produce obtained in consequence of diminished wages, or of improvements in agriculture, to be one of the causes to raise rent. To me it appears that it will only augment profits" Ibid., p.11(fn).

1. Ibid., p. 18.
different facts, "Had his thinking at this stage been clear Ricardo should have realised that the price of corn increased only because more labourers were employed for the production of corn along with the process of accumulation; and the rise in the price of corn was bound to lead to a rise in money wages. "\(^1\) Thus the alleged two causes viz., rise of wages of labour, and more labourers being employed for the production of corn, are only one cause. The error has been committed by Ricardo because he was not clear as to why must the capitalists pay some minimum real wages so that the money wages could increase when the price of food increased. For this purpose Ricardo should have propounded some theory of wages in consequences with the theory of price, which would compel the capitalists to pay some minimum wages to the labourers. This deficiency is made up by Ricardo with writing his Principles of Political Economy and Taxation which really speaking is a modified form of An Essay on Profits.

Ricardo was enthusiastic about writing the theory of value to present a theory of wages which would compel the capitalist not to let the real wages diminish below a certain minimum and which should also be in consonance with the theory of value. This can be substantiated thus: In the opening

\(^1\) Mohammad Shabir Khan, \textit{op. cit.}, p. 28.
paragraph at the chapter on wages in the *Principles of Political Economy and Taxation*. Ricardo makes his theory of wages just an application of his theory of value to the special problems of labour when he says "Labour; like all other things which are purchased and sold and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution."¹ This is obviously the cost of production theory of wages which lays down that the natural price of labour would be what is necessary for the labourers to subsist and reproduce themselves. But this cost of production is the real cost of production which depends not on the account of money received by the labourers but the wage goods which are necessary for the labourers according to their existing habits. Ricardo says, "The power of labourers to support himself, and the family which may be necessary to keep up the number of labourers, does not depend on the quantity of money which he may receive for wages, but on the quantity of food, necessaries, and conveniences become essential to him from habit, which that money will purchase. The natural price of labour, therefore, depends on the price of the food, necessaries

and conveniences required for the support of the labourer, and his family. With a rise in the price of food and necessaries the natural price of labour will rise; with the fall in their price, the natural price of labour will fall.¹

Now the point which has to be carefully noted is that the price of labour has been considered as an independent entity. Labour is supposed to have natural and market price just as any other commodity which is purchased and sold and which can be increased and diminished in quantity. So the same rule which applies to the determination of the price of labour is also applicable in the determination of the price of any other commodity. To be more specific there should have been a theory of value which could be as much applicable to the determination of the price of all other commodities as that of labour. Ricardo advocates a cost of production theory of value. Professor Mohammad Shabbir Khan writes "It may be pointed out that this theory even in its most simplified version is not an analytical labour theory of value. The best that can be said about it is that Ricardo it presented an empirical labour theory of value in which labour appeared to him the sole element of the cost of production of the commodities."²

² Op. cit., p. 32: There are quite a few passages in 'Notes on Malthus' Principles of Political Economy which prove that
It is, therefore, obvious that there is no clash of interest between the labourers and the capitalists because wage rise simply because the price of corn, and hence the rent too has risen. Thus Maurice Dobb quotes "It was indeed, Ricardo’s theory, in it the rate of profits was uniquely determined by the ratio of corn produced at the margin of agriculture (the wage-good industry) to corn consumed by labourers as subsistence. Prices in non-wage-goods industry

Conti...

Ricardo believed in the cost of production theory of value. For instance he says: "The real value of a commodity I think means the same thing as its cost of production, and the relative cost of production of two commodities is nearly in proportion to the quantity of labour from first to last respectively bestowed upon them". (Works of David Ricardo, Vol.II, p.35).

Similarly he says: "Mr. Malthus mistakes the question - I do not say that the value of a commodity will always conform to its natural price without an additional supply but I say that the cost of production regulates the supply and therefore regulates the price" (Ibid., pp. 48-49).

The following statements may also be added to show that Ricardo's theory was cost of production theory of value. "But what is meant by a quantity of labour, being the cost of a commodity? - By cost is always meant the expense of production estimated in some commodity, which has value, and it always includes profits of stock" (Ibid., p. 79).

"Naturally price is another name for cost of production - while a commodity will sell in the market for its natural price or above it, it will be supplied, the cost of production therefore regulates its supply. Mr. Malthus says the demand accompanied to the supply regulates price, and the cost of producing the commodity regulates the supply. This is a dispute about words - whatever regulates the supply regulates the price" (Ibid., pp 224-25).
being adjusted to the level at which the same rate of profit was earned there is agriculture. It is sometimes argued that question of rent is dismissed before the total produce is appropriated between the labourers and the capitalists. Sraffa has aptly pointed out that the arrangement of the chapters in the Principles of Political Economy and Taxation is almost the same as that of in Adam Smith's Wealth of Nations. Then he adds, "The only important difference is in the place given to Rent, which was dictated by the necessity for Ricardo of getting rid of rent" (as he puts it), inorder to simplify the problem of the distribution between capitalist and labourer. Otherwise in the whole system of Ricardo rent rises with the advancement of capitalist society, causing a rise in the price of corn and ultimately an augmentation in the wages of labourers. This causes profits to fall and vice-versa. He is however sure, "If the necessaries of the workmen could be constantly increased with the same facility, there could be no permanent alteration in the rate of profits and wages,...". The influence that there was no conflict between the labourer and the capitalist can also be verified from the

3. Ibid., p. 289.
Table constructed by Cannon, which gives the proportional distribution of the produce between wages, profits and rent as follows:  

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Produce</th>
<th>Rent</th>
<th>Profits</th>
<th>Wages</th>
<th>No. of Men</th>
<th>Wages per Man</th>
<th>Proportion of Whole Produce Falling to</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>£720</td>
<td>None</td>
<td>£480</td>
<td>£240</td>
<td>10</td>
<td>£24</td>
<td>Rent: 0.666, Profits: 0.333</td>
</tr>
<tr>
<td>II</td>
<td>£1482 6/17</td>
<td>£42 6/17</td>
<td>£945 15/17</td>
<td>£2812/17</td>
<td>20</td>
<td>£281/17</td>
<td>Rent: 0.028, Profits: 0.638, Wages: 0.333</td>
</tr>
<tr>
<td>III</td>
<td>£2295</td>
<td>£135</td>
<td>£1395</td>
<td>£765</td>
<td>30</td>
<td>£251/2</td>
<td>Rent: 0.058, Profits: 0.627, Wages: 0.333</td>
</tr>
<tr>
<td>IV</td>
<td>£3168</td>
<td>£288</td>
<td>£1824</td>
<td>£1056</td>
<td>40</td>
<td>£262/5</td>
<td>Rent: 0.090, Profits: 0.575, Wages: 0.333</td>
</tr>
<tr>
<td>V</td>
<td>£411 4/2</td>
<td>£514 2/7</td>
<td>£228 8/7</td>
<td>£1371 3/50</td>
<td>50</td>
<td>£273/7</td>
<td>Rent: 0.125, Profits: 0.547, Wages: 0.333</td>
</tr>
</tbody>
</table>

The table shows that in period I labourers and capitalists combine themselves in the process of production. There is an abundance of fertile land so that no price can be charged for its use and hence the question of rent does not arise. The value of total produce in this period comes to £720 which is shared between labourers and the capitalists. Ten workers are employed whose natural money wage rate is £24 per man.

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(which is needed by the labourers to subsist and perpetuate their race), the total wage bill being £240. The rest of the value of the total produce, i.e., £80 goes to the capitalists as profits. It shows that the proportional share of the whole produce falling to profits comes out to .666 and that to wages .333 (rent being nil in this period).

Ricardo has assumed the inherent desire on the part of the capitalists to accumulate and further increase their profits. Therefore the whole of the profits of the first period are not consumed by the capitalists; instead, a major portion of that is accumulated for purposes of investment. This leads to an increased demand for labour the supply of which cannot be increased in the short run. Hence market wage rate increases which enables the labourers to live comfortably, marry and rear children leading to the increase in labouring population from 10 to 20 in period II. The increasing population, however, has to be fed and therefore the production of corn has to be increased. The availability of the fertile and best situated land being limited increased food can be produced by bringing inferior plots of land under cultivation or by applying more doses of labour and capital on the existing plots of land. In both cases the diminishing returns in agriculture would set in and the cost of production of corn would rise leading to the rise in the price of corn. Simultaneously, it would be possible for the landlords to demand extra produce on the superior plots of land and thus an amount of say £42 6/17 would
have to be paid in the form of rent.

On the other hand, since the supply of the labourers has increased to match the required demand the wage rate would again fall down to the subsistence level. But the subsistence can be measured not in terms of money which the labourers get but in terms of quantity of goods required by the labourers. Since the price of corn (a major item of consumption of labourers) has risen due to the difficulty in the production of corn, the money wages per man would have to be increased from £2.4 to £2.4 12/17 so that the labourers are in a position to purchase the same amount of goods and services needed for their subsistence as during period I. The total wage bill will, therefore, be £4 9/4 2/17 in period II. The total produce of period II being £1 482 6/17 the profits which would remain after the payment of rent and wages would be equal to £94 5 15/17. It shows that the proportion of the whole produce falling to rent profits and wages would be .028, .638 and .333 respectively.

The same process is repeated during periods III, IV and V in which the increased accumulation of capital leads to the increased demand for labour giving rise to higher market wages, better standard of living and adjustment of the supply of labour to its demand. The increased supply of labour, in its turn, leads to greater and greater difficulty in the production of corn causing an increase in the rent of superior
plots of land and the increased price of corn leading every
time to the higher money wage rate per man although the real
wage rate remains stable. The last three columns of the table
shows that the proportionate share of the rent goes on
increasing, that at the wages remains the same, and that of
profits goes on diminishing.

We can now safely infer that there is no clash of
interest between the labourer and the capitalist. The inverse
relation is the product of the system in which rise of rent
is the main point. The money wage rise not the real wage and
that too became of the rise of rent. Ricardo writes, "It
appears then, that the same cause which raises rent, namely,
the increasing difficulty of providing an additional quantity
of food with the same proportional quantity of labour, will also
raise wages". Moreover, Ricardo does not regard the surplus
produce as an exploitation of labour. He, on the contrary,
regards profit as a compulsory payment adequate to compensate
the troubles and risk undertaken by the capitalist. Therefore,
"The farmer and manufacturer can no more live without profit
than the labourers without wages. Their motive for accumula-
tion will diminish with every diminution of profit, and will
cease altogether when their profits are so low as not to
afford them an adequate compensation for their trouble, and
the risk which they must necessarily encounter in employing
their capital productively".  

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2. Ibid., p. 122.
Let us now proceed to discuss the clash of interests of the two proprietor classes— the capitalist and the landlords. Ricardo writes, "the interest of the landlord is always opposed to that of the consumer and manufacturer". 1

First of all we should note that in Ricardo's system only labourer and the capitalist classes are the productive classes. Landlords may be regarded as parasites who live upon the fund which formerly constituted the part of the profits of stock. His whole theory of Rent is an extraordinary example that rent does not create wealth but is merely a transfer of wealth from the one class to the other. He wrote, "It must be admitted that Mr. Sismondi and Mr. Buchman for both their opinions are substantially the same, were correct when they considered rent as a value purely nominal and as forming no addition to the national wealth, but merely as a transfer of value, advantageous only to the landlords, and proportionately injurious to the consumer". 2 He wrote to Malthus, "surely Buchman is right and your comment wrong; rent is not creation but a transfer of wealth". 3 And again, "for before it is paid to the landlords as rent it must have constituted the profits of stock". 4

1. Ibid., p. 335 2. Ibid., p. 400
3. Ibid., Vol. VII, p. 120 4. Ibid., p. 283.
The laws which govern the rise and fall of rent and profit are quite opposite. Ricardo writes, "the laws which regulate the progress of rent, are widely different from those which regulated the progress of profits, and seldom operate in the same direction."¹ Rent rise only when inferior lands are taken into cultivation or when lesser returns are obtained with the same amount of labour and capital. The price of corn rises to suit the returns of the inferior land which pays no rent. This increases the difference in the returns of the superior and the inferior lands and hence rent rises. Thus, it is in the best interest of the landlord that the price of corn must rise so that he can get more and more amount in rent. It may not be out of place to maintain that the landlord is not interested in the improvement of agriculture for the same decreases his rent in the short period. Therefore, he writes to Trower, "They are in possession of machines of various productive power, and it is their interest that the least productive machine should be called into action."² The landlord has the double interest in it. "first, it gives him a greater quantity of corn for rent, and secondly, for every equal measure of corn he will have a command not only over a greater quantity of money, but over a greater quantity of every commodity which money can purchase."³

¹. Ibid., Vol. I, p. 268
³. Ibid., Vol. I, p. 337.
Such is not in the interest of the capitalist firstly, because the price of manufacturing industrial goods will not rise due to the rise in the price of corn, for if no more labour is required to produce them, they cannot raise in price. Thus, manufacturing goods are sold on the prevailing prices. Secondly, because with every increase in the price of corn the capitalists have to pay more and more money wages to the labourers to enable them to have at least the same command on his item of necessaries, to perpetuate the race of labouring class. Thus, cost of production of the industrial goods rises without any corresponding change in the price of the produce. Consequently profits fall Ricardo, while admitting the difference of opinion with Malthus on the question of profit writes, "I have been endeavouring to get you admit that the profits of stock employed in manufactures and commerce are seldom permanently lowered or raised by any other cause than by the cheapness or dearness of necessaries; or on those objects on which the wages of labour are expended". And again, "the only adequate and permanent cause for the rise of wages is the increasing difficulty of providing food and necessaries for the increasing number of workmen".

It is in the interest of the capitalists that agricultural improvement must be carried out. The increased productiveness will augment the produce with lesser cost. The price of foodgrains

will be lowered down and consequently the wages of the labourer which will lead to the rise of profit.

George J. Stigler criticises Ricardo when he says that, "Ricardo was prone to exaggerate the conflict of interests between landlord and other economic classes, and his discussions of improvements in agricultural techniques is an important example of this". Under his usual assumptions his conclusion should have been that improvements always benefit the landlords.¹ He supports his viewpoint and writes, "the marginal product curve of capital and labour is higher relative to the cost of capital and labour. He believed that improvements had little effect on the shape of the marginal product curve - Works, Vol. I, pp 412-13.) and, since the supply of labour is infinitely elastic at a given real wage, rents must rise in the long run".² It cannot be said that he wholly ignored this implication. He thinks that in the long run they are also interested in the agricultural improvements. The difficulty of production would compel them to spend more money on the corn and, secondly, they would have to pay the higher money wages. Ricardo says, "I fully acknowledge the interest which landlords have in the increased fertility of their land, and in improvements in agriculture, for they cannot fail ultimately to reap the benefit; all I contend for is that the immediate effects are

² Ibid., p. 200.
injurious to them, and if the principle of population were not strong might be permanently injurious to them".

Thus, here too the clash of interest between the landlord and the capitalist are for a short period. In the long run however, both are benefited by the improvements in agriculture.

Ricardian system presents a short-run conflict of interest between the two proprietor classes, i.e. the capitalist and the landlord class. Similarly, introduction of machinery also creates a temporary injurious effects to the interests of the labourers who become redundant and thus thrown on to the streets. However, Ricardo was concerned, as we have already seen, with the long run analysis. Therefore, there will be no clash of interest. Nobody can doubt however that Ricardo presented a ready made material for writers to come. If we consider a short run course, clash of interest is apparent. Ricardo saw the creation of surplus value by labour but appropriated by the capitalists. Though he never generated the idea of exploitation out of it, yet Marx must be thankful to Ricardo for the ready material which the former used against the classists and their system. Again Ricardo established inverse relationship between wages and profits and a clash of interests apparently in the use of labour saving machines. Schumpeter has said of Marx that he had a master in Ricardo. Still we can

say that Marx did not read his master carefully and inferred quite contrary conclusions which Ricardo never meant. Marx misunderstood him in the use of labour saving machines. Thus Michael P. Fogarty wrote, "Karl Marx was as much Ricardo's disciple as Hegel's Marx stood Ricardo, like Hegel, on his head before using him; the conclusions of Marx's capital are not precisely what Ricardo would have wished. But the fact remains that capital is the pure milk of Ricardo's doctrine, developed and interpreted by a brilliant disciple with a fire and vision and skill in practical illustration which the master himself never equalled."  

Ricardo, however, was much more interested in the clash of interests between the two proprietor classes. He saw their interest opposed not only to the capitalist but to the general public. He says, "The dealings between the landlord and the public are not like dealings in trade, whereby both the seller and buyer may equally be said to gain but the loss is wholly on one side, and the gain wholly on the other."  

1. Introduction to the Principles of Political Economy and Taxation (1957 edn.) pp. VI-VII.  