Chapter IV

ON RENT

The correspondence between Ricardo and Malthus up to the end of Jan. 1815 contains no reference to the subject of rent. The discussion between the two on this subject started only in Feb. 1815, after the publication of Malthus's two pamphlets 'An Inquiry into the Nature and Progress of Rent' and 'The Grounds of an Opinion.' It was soon after the appearance of these pamphlets that Ricardo published his 'Essay on Profits.' Although the title of the 'Essay' suggests that it was inspired by Ricardo's disagreement with Malthus yet in view of unusually large number of footnotes, mostly referring to Malthus, in the first half of the 'Essay', it is reasonable to conclude that it is the revised version of a text prepared before the appearance of Malthus's pamphlets.

Malthus, in his 'An Inquiry into the Nature and Progress of Rent' defines the rent of land as "that portion of the value

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x An Inquiry into the Nature and Progress of Rent, and the Principles by which it is Regulated.

+ The Grounds of an Opinion on the Policy of Restricting the Importation of Foreign Corn.

of the whole produce which remains to the owner after all the outgoings belonging to its cultivation, of whatever kind, have been paid, including the profits of the capital employed, estimated according to the usual and ordinary rate of profits of agricultural stock at the time being. Thus according to Malthus, rent is the excess of produce over the return on the capital of the farmer. The question arises what are the causes of the excess of the price of raw produce above the costs of production. Malthus gives three causes:

"First, and mainly, That quality of the earth, by which it can be made to yield a greater portion of the necessaries of life than is required for the maintenance of the persons employed on the land. 2dly, That quality peculiar to the necessaries of life of being able, when properly distributed, to create their own demand, or to raise up a number of demanders in proportion to the quantity of necessaries produced. And, 3dly, The comparative scarcity of fertile land, either natural or artificial."

2. Ibid., p.15.
Thus according to Malthus rent exists because land can produce more than enough to pay its cultivators, because population grows when food is present and because fertile land is relatively scarce. It must, however, be noted that of the three causes the quality of the soil which gives rise to the surplus of produce over cost of production is considered to be the main cause of the emergence of rent. Whatever the degree of external demand it cannot give rise to rent unless there is a surplus out of which it can be paid. Hence the surplus from land arising from its fertility is the 'foundation' of rent. The second cause stated by Malthus is very characteristic of his whole system. He has laid a great stress on the point that the accumulation of capital increases the production in the economy to such an extent that the aggregate demand falls short of the aggregate supply leading to stagnation and unemployment of both labour and capital. There is, however, one exception to this general rule and that is the case of the produce of the land. The produce of the land i.e. food and other necessaries of life have a 'peculiar quality' in that they are the pre-requisites to the increase of population. Hence as the supply of food increases as a result of extending the area of cultivation or cultivating intensively the area already cultivated, in consequence of accumulation, the population also increases to create effective demand for the increased supply of food. This makes the surplus produce of the land a real surplus.
Since, according to Malthus, population has a tendency to press against the means of subsistence. The third cause, enumerated above, namely, the comparative scarcity of the fertile land is the 'natural consequence' of the second. Since the fertile land is comparatively limited the greater quantity of capital cannot be employed unless it is accompanied by the cultivation of the inferior plots of land, and the surplus arises on the more fertile land.

After examining 'the nature and origin of rent', Malthus considers the laws by which it is governed, and by which its increase or decrease is regulated. He says:

"When capital has accumulated and labour fallen on the most eligible lands of a country, other lands, less favourably circumstanced with respect to fertility or situation, may be occupied with advantage. The expenses of cultivation, including profits, having fallen, poorer land, or land more distant from markets, though yielding at first no rent, may fully repay these expenses, and fully answer to the cultivator. And, again, when either the profits of stock or the wages of labour, or both, have still further fallen, land still poorer, or still less favourably
situuated, may be taken into cultivation. And, at every step, it is clear that if the price of produce does not fall, the rent of land will rise. And the price of produce will not fall, as long as the industry and ingenuity of the labouring classes, assisted by the capitals of those not employed on the land, can find something to give in exchange to the cultivators and the landlords, which will stimulate them to continue undiminished their agricultural exertions, and maintain their increasing excess of produce. 3

Malthus lays down four main causes which increase the difference between the price of produce and the expenses of cultivation, and therefore increase the rent. These are:

1st, such an accumulation of capital as will lower the profits of stock; 2dly, such an increase of population as will lower the wages of labour; 3dly, such agricultural improvements, or such increase of exertions, as will diminish the number of labourers necessary to

3. Ibid., pp. 21-22.
produce a given effect; and 4thly, such an increase in the price of agricultural produce, from increased demand, as without nominally lowering the expense of production, will increase the difference between this expense and the price of produce.

Thus if too much capital is accumulated in the economy, it would not remain idle but would seek employment, though with smaller returns, in different types of activities including agriculture. Consequently land would be cultivated which could not have been cultivated before. Similar will be the result of too fast an increase in population and the consequent reduction of wages. The improvements in agriculture will reduce the cost of producing raw produce and the 'peculiar quality' of the raw produce, already noted, will ensure that all savings in the amount of raw produce will increase the surplus which goes to rent. As far as the fourth cause is concerned, increase in demand in surrounding nations for imports of raw produce might greatly raise the price of raw produce in the exporting country, while the expenses of cultivation would rise 'slowly and gradually to the same proportion.' Malthus adds:

4. Ibid., p. 25.
"Nor would the effect be essentially different in a country which continued to feed its own people, if instead of a demand for its raw produce, there was the same increasing demand for its manufactures. These manufactures, if from such a demand the value of their amount in foreign countries was greatly to increase, would bring back a great increase of value in return, which increase of value could not fail to increase the value of the raw produce."  

Malthus has, however, made it clear that it is not necessary for a rise of rent that all four causes should operate simultaneously, but only that by one or some of them the difference between the price of produce and the expenses of production should be increased. According to Malthus the causes which lead to a fall of rents are exactly of an opposite description to those which lead to a rise, namely diminished capital, diminished population, a bad system of cultivation, and the low market price of raw produce.

Immediately after the publication of Malthus's 'An Inquiry into the Nature and Progress of Rent' Ricardo wrote to Malthus:

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5. Ibid., p. 23.
"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,...... There are some parts of the essay with which I cannot agree. One of these is the effects of improvements, whether in the practice of Agriculture, or in the implements of husbandry, on rent. They appear to me in their immediate effects to be beneficial to the farmer only, and not to the landlord."  

Malthus in his reply to Ricardo wrote:

"I am rather surprised that you do not think that improvements in the practice of agriculture and in the implements of husbandry affect rents. While they are confined to a few and during the current leases, the advantage of them must go to the farmers. But afterwards they appear to me to affect rents almost exclusively."  

7. Ibid., p.174
Within the next weeks Ricardo brought out his Essay on Profits. He opens the Introduction to Essay with the statement that in treating on the subject of profits it is necessary to consider the principles of rent. He begins the Essay by quoting with approval Malthus's definition of the rent of land as "that portion of the value of the whole produce which remains to the owner after all the outgoings belonging to its cultivation, of whatever kind, have been paid, including the profits of the capital employed, estimated according to the usual and ordinary rate of the profits of agricultural stock at the time being."

According to Ricardo 'in the first setting of a country rich in fertile land' there will be no rent and the whole of the surplus over what the farmer pays out in cost of cultivation will be farmers profits. Ricardo holds that in this early state the farmer would get a very high rate of profit say, for example, 50 percent. After all the fertile land in the immediate

8. Works and Correspondence of Ricardo, Vol. IV p. 10. A few pages later Ricardo, in a footnote defines rent as "the remuneration given to the landlord for the use of the original and inherent power, of the land, and in the chapter on Rent in his Principles he substitutes the word 'indestructible' for the word 'inherent' of the Essay.


neighbour-hood of the first settlers were cultivated, if capital and population increased, more food would be required, and it could only be procured from land not so advantageously situated. \(^1\) And when all the more fertile land was in cultivation and more food was required with the further progress of population and wealth, less fertile land would have to be taken into cultivation. The produce from the less well situated and less fertile land would cost more in cultivation and transport to the market and so also would any additional produce raised by intensive cultivation \(^2\) from the better land first cultivated. So the profits on these portions of produce would be less than it had been on what may be called the earlier portions. The competition of the farmers for best land would cause rents to be offered for them, and the payment of these rents would bring all profits in agriculture down to the lower level. Since trade and agriculture are in competition for capital, profits on all trading capital will also fall to that level. \(^3\)

\(^1\) Ibid., p. 13.
\(^2\) Cf. Ibid., p. 14.
\(^3\) Cf. Ibid., p. 14.
Ricardo says:

"Thus by bringing successively land of
a worse quality, or less favourably
situated into cultivation, rent would rise
on the land previously cultivated."  

Ricardo has also shown with the help of a statistical table that increasing difficulty of procuring food, in consequence of accumulation, benefits the landlord in a double manner. He not only obtains a 'greater produce', but a 'larger share'. Ricardo has also pointed out that improvements in agriculture, or in the

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+ It may be pointed out that economists like Carey have criticised Ricardo on this issue. It has been argued that Ricardo was unaware of how actually things take place in the new settlement of a country. Example has been taken from the United States to show that the migrants from the West European countries first cultivated the plots of lower fertility because the most fertile plots of land had a rich growth of natural vegetation. It was only after the pressure of population had necessitated further cultivation that the vegetation on the most fertile plots of land was cut down and cleared and these plots were brought under cultivation. One can, however, say that this type of criticism is based on the misunderstanding of the Ricardian system. In fact Ricardo was not interested in economic history or, for that matter, how the first settlement of a country actually takes place. He was only interested in discussing a model of the functioning of the free enterprise economic system and exposed the fact that rent arises due to difference of fertility of different plots of land. The order of succession of plots with different fertility is really immaterial.


15. Cf. Ibid., p. 17.
implements of husbandry lower the price of corn and therefore 
reduce rents "for a time." He then remarks:

"...the interest of the landlord is 
always opposed to the interest of 
every other class in the community. His 
situation is never so prosperous, as when 
food is scarce and dear, whereas all 
other persons are greatly benefited by 
procuring food cheap."  

In the summer of 1815 Ricardo was considering the pre-
paration of a revised edition of the Essay on Profits. He 
started work on the project but it finally took shape not as a 
revised edition of the Essay on Profits but as the Principles of 
Political Economy and Taxation.

It may be pointed out that in the first two editions of 
his Principles of Political Economy and Taxation Ricardo's 
view on the nature and progress of rent did not undergo any 
material change. Similarly, Malthus's views on rent in his 
Principles of Political Economy are essentially the same as in his 
Inquiry into the Nature and Progress of Rent. Malthus, however,

17. Ibid., p.21.
criticised Ricardo for taking a 'peculiar view' that improvements in agriculture tend to lower rents and therefore the interest of the landlord is opposed to that of every other class in the society. 19 Ricardo, in the third edition of his Principles added a footnote explicitly allowing the ultimate benefits of agricultural improvements to landlords without yielding his old contention that the immediate effect of agricultural improvements was harmful to them. He also expresses a similar idea in two new paragraphs added to chapter XXIV in which he states that, when the productivity of the soil is increased "all the advantages would, in the first instance, be enjoyed by labourers, capitalists and consumers, but with the progress of population, they would be gradually transferred to the proprietors of the soil." 20

It may be pointed out that there is a general belief that in the theory of rent Ricardo was only a borrower and he did not


x "I hope I am not understood as undervaluing the importance of all sorts of improvements in agriculture to landlords —their immediate effect is to lower rent, but as they give a great stimulus to population, and at the same time enable us to cultivate poorer land, with less labour, they are ultimately of immense advantage to landlords. A period however must elapse, during which they are positively injurious to him." Works and Correspondence of Ricardo, Vol. I p.81.

20. Ibid., p.335.
improve upon the theory in any basic respect. This view is apparently supported by Ricardo’s statement in a footnote in the ‘Essay on Profits’ that "In all that I have said concerning the origin and progress of rent, I have briefly repeated, and endeavoured to elucidate the principles which Mr. Malthus has so ably laid down, on the same subject, in his "Inquiry into the Nature and Progress of Rent."21

However, a perusal of the Works and Correspondence of David Ricardo leads one to the conclusion that Ricardo’s theory of rent is different from that of Malthus in certain important respects. Malthus believes that the quality of the land of being able to maintain more persons than are required to till it is the foundation of the emergence of rent. Thus he says:

"The quality of the earth first mentioned, or its power to yield a greater portion of the necessaries of life than is required for the maintenance of the persons employed in cultivation, is obviously the foundation of this rent, and the limit to its possible increase."22

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"Is it (ie. rent) not, on the contrary, a clear
indication of a most inestimable quality in
the soil, which God has bestowed on man —
the quality of being able to maintain more
persons than are necessary to work it?"23

This explanation obviously resembles the one given by
Physiocrats (who named rent as the net product) and Adam Smith,
namely, that rent is the natural outcome of some special feature
possessed by earth and given to it by God.

Ricardo, on the other hand, believes that it is the scar-
city of the more fertile land rather than the fertility of the
land which is mainly responsible for the emergence of rent. He
says:

"Nothing is more common than to hear of the
advantages which the land possesses over
every other source of useful produce, on
account of the surplus which it yields in the
form of rent. Yet when land is most abundant,
when most productive, and most fertile, it
yields no rent, and it is only when its powers
decay, and less is yielded in return for
labour that a share of the original produce

23. Ibid., p. 149.
of the more fertile portions is set apart for rent."

It follows that Ricardo lays stress upon the niggardliness of nature rather than its liberality and hence breaks the connection with the Physiocrats and Adam Smith.

Moreover, the views of Ricardo and Malthus are also different as regards the dynamic question of the effect of improvements on rent. Malthus believes that all improvements in agriculture lead to savings in the cost of producing the raw produce and therefore increase the surplus which goes to rent. Ricardo, on the other hand, insists that although improvements in agriculture are ultimately of immense advantage to landlords, yet their immediate effect is to lower rent.

In fact Ricardo himself was aware of the difference between his theory of rent and that of Malthus. Thus in a letter to J.B. Say he wrote:

"I should have been glad to have had your opinion of the particular doctrines which I hold respecting rent and profit in opposition to Mr. Malthus."

It appears that it is only due to his extreme modesty that Ricardo, despite important difference with Malthus on the nature of rent, hails the latter as the discoverer of the true doctrine of rent.