

8 DAVID RICARDO, CONTEMPORARY ECONOMIST*

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"The man of science, a man who is almost sure of himself"

Jules Renard

Abstract

David Ricardo (1772-1823) was one of the most important economists of the world. He got fortune, he became banker and then he turned towards the study of Political Economy. What did this important economist bring new within the economic thinking, considered by the economic critics as a "liberalist pessimistic", he who was among the first who introduced the biologic factor in the development equation? This is what the current study is outlining by pointing out to some updated coordinates and ranking him among the first well-known contemporary economists in the world.

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1. There are two ways of understanding nothing from the French Revolution of 1789. One is to curse it, the other one to celebrate it without any reserves. Those who curse it are doomed to remain insensitive to the turbulent birth of democracy. They would better propose to our society other founding principles than freedom and equality. Those who only celebrate it are unable to grasp and explain its tragedies, except covering them with their circumstantial excuses. They will remain blind to the ambiguity surrounding an event which meant, several times in the same appraisal, human rights and terror, freedom and despotism. Thus wrote Francois Furet in his book entitled "La Revolution française"¹. Rarely have we been witnessed such a balanced appreciation, expressing both the magical belief in human will to change our society and a connection with ancient utopias founded by a "golden age" which was always desirable, acclaimed, invoked.

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We mentioned the French writer, chosen among the “immortals” of the Hexagon, because we have noticed the same drive towards equilibrium, the same scientific progress, scientifically censored by prudent coming backs, incapable of voiding the breakthroughs already achieved, as we did with David Ricardo, the great economist whose birthday we celebrated on April the 18th, marking 235 years since his birth. To which we noticed a relative optimism which pays a heavy tribute to the several realities as grim as they are real. To which we noticed the successful attempt to introduce the biological and human factors in the equation of development. But who was and who is David Ricardo and what did he claim?

2. First, a few biographic data. David Ricardo was born in 1772, on April the 18th, in England, and died on September 11th, 1823. He did not live long, but he accomplished as much as gifted people achieved in several lives, and some, never. Ricardo was the third among the 17 children of the marriage between Abraham Israel Ricardo – a Spanish Jew, initially a stock broker at the Amsterdam Stock Exchange and established in England around 1760, where he will be among the top agents at the London Exchange and a leader of the Spanish Jews here – and the woman Abigail Delvale – coming from a family of stock brokers and tobacco merchants, originated also from the Iberic Peninsula, but established in England for a long time. These are details which will mark the life of the brilliant future economist: wisdom, talent, culture, a lot of work, a pragmatic horizon, action, and finality. The years of Ricardo were the years of the Industrial Revolution – a process with fundamental economic, social and political mutations in the structure of the British society and later in the European society, years in which the world faced troublesome events, often contrary to the logic of time. Among these, the loss of the English colonies and the recognition of America’s independence, the reckoning French Revolution of 1789, which had as a consequence, among other effects, the beheading of yet another king after that occurred after Cromwell’s Revolution in England. After that, have followed France’s unending wars under the lead of one of humanity’s greatest personalities, Napoleon Bonaparte, as well as ferocious fighting regarding the dominion of the seas and oceans, of India, a volcanic effervescence of Europe, of “the New World”, etc. For many it was a world of ruptures, of distinct stages, many of which thought irreconcilable. For fewer others, among whom was Ricardo himself, it was “a world of continuity, regarded as a common noun of fractions which differ in structure”¹, a world of evolution and progress.

Very early, at the age of 11, the young Ricardo was sent by his parents to the Talmud Tora School near the synagogue of Amsterdam, to be educated in this famous Hebrew institution. He was housed by an uncle, a speculator and stock market player, continuing thus his education which has began at home, with his father, regarding the commercial practicing and stocks. Two years later, he returned to the English capital, where, after another year of hard work, he began working at Ricardo SR’s office. At the age of 21, he gained so much experience and prestige in this area that London’s banks offered him credit for starting his own work office². Although dedicated to

¹ François Furet, *La Révolution française*, Gallimard, „Quarto”, 2007.

² David Ricardo’s precocity was, however, not unusual in those times. William Pitt Jr. had become member of Parliament at the age of 21, minister of finances at the age of 23 and



business, he fell in love with Priscilla Ann, the beautiful daughter of a Quaker physician. His parents were against the girl, for being a Christian, but Ricardo was determined, and they got married in 1793. This was to eliminate any ambiguity and also to further understate Ricardo's independent spirit (Gide and Rist will define him as a classical liberal pessimist). Ricardo produced other major dislikes to his family. He has left the Hebrew community, joining the Unitarian church - a church often stated as consistently tolerant, preparing many people for a path towards atheism. The family's reaction was prompt: the father excommunicated his young nonconformist son. Towards the end of his life, he turned more merciful, adding Ricardo among the beneficiaries of his will. However, David himself had become, in 1803, a very wealthy man, and so his father's gesture helped only to increase his wealth and respectability among others.

Thus, one may see an existence full of events, in a world full of turbulence, but also a very well-balanced existence mastered by David Ricardo, who built himself a great fortune and who, after his wealth ambitions have been fulfilled, had dedicated his life to the study of economics, maybe to better understand why and how he had built his fortune. And, certainly, to understand in another way than by calculus, the laws of evolution and progress of his world and the world that was to follow. But what did David Ricardo create in the field of economics?

3. In the perimeter of economic thinking, Ricardo built at least four essential directions. These were: a) the theory of value b) the theory of rent c) the theory of repartition and d) the theory of comparative costs. Thus, he crossed the entire breadth of the economic field, observing and pointing out solid, original, coherent milestones, some of which were confirmed throughout time, others infirmed – but always used as bibliographic references by economists. What could be more beautiful than that? Ricardo's main work, which is a compendium of his ideas and thesis, is the volume "On the Principles of Political Economy and Taxation", first printed in London, in April 1817 – i.e. 190 years ago. It is an interesting fact – according to a well argued opinion on the basis of its fundamental analysis and also on the study of Ricardo's extended correspondence with economists, bankers, politicians, scholars, like John Stuart Mill, the great merchant Pascoe Grenfell, the banker Horner, Thomas Robert Malthus, but also John Ramsay, M. Culloch, Jean Baptiste Say (over 500 letters were found¹) - that David Ricardo did not make it into economic journalism starting from theoretical ideas. Rather he was animated by his desire to contribute to revealing solutions to the practical economical-financial problems which England faced in the first two decades of the 19th century². That is why he demonstrates more than he

Prime Minister of England at the age of 24. His famous enemy, Charles Fox, had become member of Parliament at the age of 19, minister of the Commercial Navy at the age of 21, and leader of the opposition towards King George III policy at the age of 25.

¹ *Ch.Gide and Ch.Rist, Istoria gândirii economice de la fiziocrați până azi, Editura Cassei Școalelor, București, 1926, Romanian version by George Alexianu, p.196-241. See also Costin Murgescu, David Ricardo, În Anglia revoluției industriale, Editura Științifică, București, 1972.*

² In the summer of 1799 – writes Prof. Murgescu in the above-mentioned study – when visiting together with his sick wife the Bath spa David Ricardo entered a public library from where books could be lent. Thus, he has found Adam Smith's book "The Wealth of Nations", which



exposes, his writings are based on numbers rather than abstract economic judgements but still he does not avoid this, and he has the advantage of somebody who studied not because of interest, but because of pleasure, with elegance and not with tiresome effort¹. Let us look at this matter in detail.

4. Ricardo stayed for a long time in the value theory domain and the “use value”, considered by him “the key” of understanding the other “mysteries” of social production. Following Adam Smith, Ricardo considered the source of worth exclusive in the commodity output, emphasizing at the same time, as Smith, the relationship between the size of value and labor productivity. Ricardo also affirmed that: “not only the work used directly to the output merchandise is influencing this value, but also the work used for producing the instruments, tools and buildings that helps elementary labor, focusing on the special complexity and the unit of production activity, on the important role of “the ones with the mind”, actually the Englishman is part of them”. By relating the value theory only to the work as such, one might say that Ricardo was too assiduous, without the necessary prudence, no doubts that were so useful in research, without rigorous shades. But he knows all this when he admits that the merchandise value is also conditioned by their rarity, giving trouble to Marx, who emphasizes “the dualism” to Adam Smith when he took over Ricardo to work out his variant of the “labor value” theory. The author of “Capital” could not explain with the necessary pertinence the “rarity exception” pointed out by Ricardo.

Ricardo has doubts when he is trying to find an invariable measure of the value meant to explain more thoroughly and even to simplify the “absolute value-exchange value” relation. At the beginning of September 1823, Ricardo was writing to Stuart Mill about his specific searches: “usually when we are in need of a certain length, we need a yard or a foot, well determined lengths, being influenced neither by growth nor by decrease. But when we do need a measurement for value, which merchandise having a value that does not change should we choose?”

The question remains unanswered, since on the 11th of September of the same year Ricardo has passed away. The monetarist difficulties of our time apply to and demonstrate David Ricardo’s certain doubts as being realistic. As a matter of fact, the famous French historians of economic doctrines Charles Gide and Charles Rist note that “Ricardo himself declared in repeated times and noticed short before his death, with a candor which makes him an honorable man that he failed in his attempts of explaining value”. The stream of labor is today recognized as a source of value but there are other streams besides this. We have tried to resume this problem but the pinpoints are essential. “It is not considered to be a fatality for the modern citizens to choose between wondering on the business territory and adopting mad ideas” wrote Furet, and in David Ricardo’s case this was not at all a fatality.

5. Furthermore, let us move to “the rent theory” This was also a theory that required time and effort from the English economists. This was in the social and political context of England confronted for almost two centuries from 1650 to 1850 with the so-

he has borrowed and started to read. Some biographers assign to this event the key role in Ricardo’s passage towards an economic scientific activity (pp. 84-85).

¹ Dan Popescu, *David Ricardo la 220 de ani*, Continent, Nos.14, 15/1993 and 16/1994.



called “grain controversy”, originated in favor of the landlords and land agents when there was an embargo on the cereals import. The poor harvest years, the rising price of cereals, starvation and the social upraising – as Costin Murgescu writes in his very interesting quoted work – did lead to the implementation of an agricultural perfectionist system, which covered important areas of lands, less productive, the agriculture techniques were improved and, most of all, the landlords were making big money.

In the perspective of this complex environment, David Ricardo has an original idea that appeared on another way of research, if compared with Adam Smith, physicians and even Malthus. “The rent involves much more avarice than generosity of the ground”, says Ricardo. The proof, he says, is in the fact that fertility can never be all alone because of the rent. If in a region, for example, the land is in larger quantity than people needs, even if it would be extremely fertile it still would not rent. “Who would think about buying the right to farm a land when there are so many lands without owner and there are for free to be farmed by everyone?” Thus, the rent will appear “only when the people increase forces the deforestation of the low quality lands”, and “the sack of wheat produced in the most unfavorable conditions makes the law on the market”. It is admirable in such circumstances – write Gide and Rist – the shrewd dialectics through which Ricardo succeeds to explain an independent income, such as the rent, just through the law that says that any value comes from work.

There are some other things to be pointed out, in other times, right items but also exaggerations, unsuitable things, in this very brief presentation of the “Ricardian Rent Theory”, such as, for example:

- a) Ricardo could not ‘see’ the root of rent as ‘a big gift of nature’, in the power that makes the grass grow and wheat ripen, but he has referred to rent in the economic analysis context, where the agriculture ‘physiology’ was a division of capitalist production, through the economic merchandise categories and the capitalism laws;
- b) The stakeholder who puts his money in agricultural production should gain a rate of profit at least equal with the one that he could get in any other part of economy. If he did not obtain a similar rate, he would take the capital from agriculture and he would put it in other domains from where he could get more was a based judgement.
- c). Rent is not an addition to the national wealth, it represents a simple exchange value transfer, advantageous for landlords and harmful for consumers – David Ricardo believed, a bit superficial demonstration we may say, considering that the land ownership has the right to receive a rent.
- d) Furthermore, through the introduction in the land crop that always involves much more production expenses, the profit falls off and the rent relatively goes up (on the less fertile lands), which are within the agricultural production cycle and there is no rent to pay, just a general rate of profit that is generated.
- e) Everywhere in agriculture there is a limited production which can be removed, but not canceled by agricultural development. Ricardo does not deny the development, he only warns about the rise slope, involving – as one of the modalities – the “biological factor” in the development equation.

Finally, f) Ricardo ‘overthrows’ the beauty of the ‘natural order’, which is considered to be constant, pointing out to many antagonisms. From Ricardo’s point of view, the land



owner's interest is in opposition not only to other classes, with whom he shares the social income, but also to the general interest of the society. For the owner, it would be good 'that the population and needs rise as fast as possible', so that 'people are to be forced to cut down new lands'. It would be good, at the same time that these lands to be as poor and unproductive as possible; due to this much work will be needed and the rent will rise. In the end, the owners, who are considered to be a class, would be interested that agricultural science should not make any progress. From Ricardo's point of view, no matter what this progress would be, it will not have as a result just the allowance to obtain more goods from the same land, and so to remove the disproportional efficiency law and, from this, to diminish the price of goods and rent. "The land would produce thorns and roots and you will gain your own food by working very hard"- this could refer to the biblical end of all these Ricardian ideas. And due to this reason many economic thinking history researchers placed Ricardo – beside Malthus, with whom he meets, even though in different ways - on a hypothetical outlook concerning people gap of mankind as a 'pessimist' person, and we referred to this one more time. Adam Smith, Bastiat or Carey are considered to be "optimists".

There are, however, essential errors in Ricardo's mentioned words. The researcher regards with "black glasses", as he almost does not observe the technical progress in its ordinary, beneficial sense, he plans the profit only according to much more simplified parameters. He attacks the institution of property with confused judgements. On the other hand, he reveals series of possible contradictions which if they were already known, analyzed, and diagnosed could undoubtedly be prevented, avoided and solved. Another circumstance of Ricardo from this point of view is that his theory related to rent actually absolves the owner from any responsibility. For Ricardo, Gide and Rist, the holder is purely passive. He does not produce his rent; he supports it if we can say this. Anyway, it is no doubt that from all Ricardo's judgements regarding the rent and actual economic state, theoreticians and politicians can filter the most useful knowledge.

6. In the "Repartition Theory", David Ricardo's contributions are not at all of less significance in comparison with other domains, such as the theory of value and the theory of rent. It is essential that the great English economist is not only preoccupied with the manner richness is created - a fashionable subject at that time. In his research, he focuses on the distribution method of the commodities created in the labor process. He even writes that: "To determine the laws which govern this distribution is the basic problem in Economy". It is also essential the fact that David Ricardo does not separate repartition from production but refers to the first domain as a part from production, with a fundamental influence on it. For a long time, this production-repartition relation observed by the English researcher has been summarized by critics and even exegetics to "profit-salary antithesis", keeping in mind that in the Ricardian theory there is no stated antagonism between the holder and the employee. Therefore the most quoted words were: "One's part can only rise when other's part goes down. Salary can rise only when profit decreases and vice versa". This type of method has been used not only by Marx, but by a significant part of the labor movement in substantiating the arguments meant to negotiate the necessary solidarity between work and capital, to set the capitalists in an unfavorable light, an incorrect one.



Or, on the other hand, Ricardo was right, but he particularly pursued to underline in the quoted words such a confrontation, its dynamics, its valuables, may be regarded as proportions not as absolute values. What Charles Gide and Charles Rist show in the recently mentioned volume, "The history of the economic doctrines" - words that in numerous situations have been omitted - is relevant in this situation: "When a cake must be split between two persons, isn't it obvious that if one takes more, the other will take less? However, we will be told that it is possible and we must assume that the quantity that must be split is always situated in a growing stage so that the part of each participant may increase. This is not the point. The cake is 10 or 100 times bigger. It isn't less true that if one takes more than a half, the other will take less". It is exactly what Ricardo's law says: "It isn't about the quantity; it's all about the proportions".

Let us note the tax profit (in numerous cases) at a higher level than the wage level, profit reinvestments, the new subdivisions of the economy, the qualitative development of the industry and the sponsorships based on profit (so frequent in the modern world) and we shall have an image that we believe will be much closer to Ricardo's revolutionary intentions of reality which are projected now in another light. We can identify in this way in Ricardo's interpretation that precipitation which many of the analysts have had it concerning the commenting of the famous words of Joseph Proudhon: "La propriete c'est le vol".

However, let us resume that Ricardo's analysis doesn't stop at the global aspect which had been reached starting from details. The English scientist worked out the "natural price of labor", a category through which he understood the value of the determined labor force through the value of the subsistence means that are necessary in producing and reproducing it. This price, Ricardo underlines, depends essentially on the customs and traditions of the people. The same English economist researcher distinguishes "the market price of labor", a category which would reflect the real price that is paid for labor "on the basis of the natural action of the supply/demand ratio". No matter how much the market price would change its direction from its natural price - Ricardo indicates - it has the natural tendency of conforming to the one mentioned above. This situation is also available in the case of any other type of merchandise. From this point of view, David Ricardo wrote "the natural law of wages" which even though it sensibly darkens the optimistic image created by Smith (who saw the development of the capitalist production joined automatically by the real wages growth) it neither embraces the very sober Malthusian vision of a cursed humanity destined to live a real "inferno" on earth. In this way, it is enough to refer only to the initial observations of Ricardo concerning the machine's role. Any use of machines in any economic division of production, having in thought that it will have as an effect the work saving, it represents a general good action. Later on - under the effect of the serious social problems created by the introduction of machines in post - first industrial revolution England and looking only at the short term and capitalist mechanism horizons (a mechanism cut off by the social protection leverages in the first decade of the century) - Ricardo, who was tented by some appearances, wrote: "The workers class opinion concerning that the use of machines does not serve their interest but is in agreement with the right principles of the political economy". Of course, that is wrong! At a higher productivity, a higher profit and higher wages are obtained. If he



could do long term analysis, for sure Ricardo would have returned to his initial hypothesis, directing his cares along with other economists' concerns, in order to assure a balanced trajectory of development, and also a proper evolution for everybody¹. We are dealing with a clear refusal of the objective factor, and if we could say so, the sacrifice of the individual liberty and the needs of a person.

7. David Ricardo has brought important developments in the "External Commerce Theory" by working out the famous theory of "comparative costs". The economist is the first one who noticed the "deeper waters" of the external commerce and of the exchange relationships between states beyond the gentle visible surface of the "buying/selling" actions. As we said before in the paragraph concerning Ricardo's contributions to the Rent Theory, during the "cereals crisis" in England, the economist militates in favor of grain import liberty. This shows that the ban on cereal importation is in favor of rising the land rent, a fact which determines the decrease in the middle profit rate and, in consequence, the braking of accumulation and, therefore, the undermining of the investments for the revolution's continuation and for the development of the country's production forces. Ricardo's liberal vision is revealed also in this case, an energizing vision for England which had already gained the status of "the industrial workshop of the world", according to previous measures with a protectionist character, foreseen by other English economists, which had favored the acquirement of this status. Maybe, this has determined the England's famous French historian Andre Maurois to state that "the English policy principle is that one shouldn't have principles at all". But let us return...

The promoter of the free engagement and serving his country's interests, Ricardo examines a certain profile in the industrial labor division. He writes in his famous work: "In a perfect liberal trade system every country keeps its natural capital and the work of those types of activities which represent an advantage. Stimulating the activity, rewarding the talent and using in the most efficient way the special forces offered by nature, this system distributes work in the most useful and economic way, while, increasing the product quantity, it spreads the general advantage and bounds through common interests and relations, universal society of nations from every corner of the civilized world". Until now it is true, even more for today's world in which, because of the relevant shortage and waste at the same time people talk more and more about "the global resources management". But, let us see what Ricardo says: "This is the principle that makes the wine to be produced in France and Portugal, the grain to be planted in Poland and America and the metal objects and other goods to be manufactured in England". Let us watch, in detail, Ricardo's motivation in using this manner for international labor division.

If Adam Smith conceived the international labor division on the basis of prices comparison to which the same commodities can be obtained in different countries, the option for producing one commodity or another being exclusively established by this price, for Ricardo the things are different. He shows that even if merchandise can be obtained with less work in a country, the country might prefer to import that merchandise in order to specialize in the production of other merchandise that can

¹ Costin Murgescu, David Ricardo, În Anglia revoluției industriale, Editura Științifică, București, 1972.



offer higher advantages. David Ricardo substitutes the absolute advantages criteria of Adam Smith by the comparative advantages criteria, offering a famous example in support to his idea. This is an example which not only through his wide horizon but also through its limits will retain the attention of today's economists and certainly of those after us. Obviously, we have to emphasize this, in analyzing this example that the most important is and was the part from which interests are seen, and also the experience gained by the humanity in the development domain, especially in the external trade. But, what is this about?

Ricardo states that in order to reproduce material, England used the work of 100 people in a year and Portugal the work of 90 people a year. In order to produce wine, England used the work of 120 people a year and Portugal the work of 8 people a year. From the price comparison perspective – as Adam Smith showed – Portugal has to specialize in the production of both commodities. This judgement is incorrect, says Ricardo, because it is important to take into consideration the relations between the internal costs of these commodities. They consider that for Portugal exporting wine and importing material would represent an advantage, and for England exporting materials and importing wine is more advantageous. More precisely, this is because by exporting wine Portugal will export the work of 80 people and exchanging it will be able to buy material from England that needs the work of 90 people. England will export through materials the work of 100 people in order to buy wine in exchange. Its production would have needed the work of 120 people. The conclusion of Ricardo is clear: “a country that has important advantages in machinery and technology and can produce merchandise with less work than its' neighbors can, in exchange of this merchandise to import part of the grain required by its' consumption, even if its' land is more fertile and grain can be planted with less work than the country from which that grain is imported¹.

Of course, David Ricardo's economic gravel has basis. And the experiences have pointed out that, during the development process, the lack of some real economic gravels amend in a basic way. On the other hand, Ricardo has been charged with the fact that he supposed the capitals and labor force as internationally immobile - which is not true at all. He was also charged that he omitted the existence of the states, of some national political restrictions, starting from the untruth of the assumption of absolute freedom of transactions between persons. It has been said that Ricardo had in mind a universal peace, without any national collation, without any international dependences, a peace that still is a dream. Also, Ricardo has been charged with the fact that his theory, linked to the quantitative conception of money, supposes the unhindered working of the automatic balance in the commercial balances, the natural impossibility of a prolonged lack of balances - which is once again not real.

If the great Romanian economist Mihai Manoilescu, starting from the related labor productivity, with incontestable economic arguments and from the perspective of the countries without industry (but which are trying to obtain one) - and it is obvious why – combats Ricardo's comparative cost theory, other world famous economists - for example Haberler or Heckscher, Ohlin and Samuelson, after the middle of the last

¹ David Ricardo, op.cit., see Dan Popescu, *Istoria gândirii economice din antichitate până la sfârșitul secolului XX*, Editura Continent, Sibiu-București, 1999.



century, have found in Ricardo's concept basic ideas in order to work out thoughts that led in various situations to a better ongoing international trade¹. As things evolved over time, our planet has become more and more our home, concepts such as food safety, energy security, health safety are being strongerly imposed, Ricardo's concept and this kind of thesis have gained and are gaining new patterns and functions on condition that "everybody must take care of everybody", a very hot issue nowadays but, unfortunately, with very low victory forecast. Many times, in limited situations the lack of wisdom and of long time vision becomes obvious. It is clear that world was and is politically structured in powerful states and "less important states", groups that confront each other or in their inner structures one way or another, that often have different interests, wasting their efforts, resources, energy, lives, some countries dominate economically and others are being economically dominated. Let's hope that in the future this might change. Therefore, the internationalization of the production forces, of economic development offers new perennial valence to Ricardo's comparative cost theory, forming important arguments in demonstrating David Ricardo's economic vision that is not only profound but also prospective, inclusively taking into consideration his pessimist message.

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By all that I have outlined, here is David Ricardo, our contemporary, a world citizen. He is a visionary not at all lacking lucidity. A man of science, whose works must be re-read, re-analyzed in a double light: that of the time when they were written, and that of today's and tomorrow's time on the another hand. As King Solomon said: "Nil nove sub sole". On condition that one should always see what is set in the light and what remains hidden in the shadow².

¹ Dan Popescu, *op.cit.*

² Dan Popescu, *Istoria gândirii economice din antichitate până la sfârșitul secolului XX*, loc.cit.