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David Ricardo: on the art of “elucidating economic principles” in the face of a “labyrinth of difficulties”

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Abstract

The paper discusses David Ricardo's analytical achievements. These concern his approach to the theory of value and distribution; his analysis of the effects of different forms of technical progress on income distribution; his analysis of exhaustible resources in terms of differential rent; his discussion of machinery and induced technical progress; and his theory of foreign trade and the principle of comparative advantage. It is argued that Ricardo's analysis has been frequently misrepresented and is a great deal more sophisticated than is commonly acknowledged. There are still ideas in his writings that have yet to be fully explored.

Keywords:

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Notes

1 On the relationship between the theories of Walras, Wicksell and Schumpeter, on the one hand, and Ricardo, on the other hand, see Kurz ([2000](#)) and Kurz and Salvadori ([2002](#)).

2 Marshall's concern with presenting his own theory as a continuation of the objectivist cost-of-production theory of the classical authors, integrated into and amalgamated with the subjectivist marginal-utility theory, made him downplay and even not see fundamental differences between the two.

3 This assessment is foreshadowed in a statement of 1839 by Henry Lord Brougham, who called Ricardo's views often "abundantly theoretical, sometimes too refined for his audience, occasionally extravagant from his propensity to follow a right principle into all its consequences, without duly taking into account in practice the condition of things to which he was applying it, as if a mechanician were to construct an engine without taking into consideration the resistance of the air in which it was to work, or the strength and the weight and the friction of the parts of which it was to be made" (Works V, p. xxxiii). And in a note in his diary about a dinner at Ricardo's on 12 January 1820, J. L. Mallet speaks of Ricardo's "entire disregard of experience and practice" (Works VIII, p. 152 n. 2).

4 It hardly needs to be stressed that Piero Sraffa's edition of The Works and Correspondence of David Ricardo (Ricardo [1951-1973](#)) has improved the Ricardo scholarship considerably by making hitherto unknown papers, correspondence etc. available to the reader.

5 In the following I draw partially on earlier works I have written alone or together with Christian Gehrke and Neri Salvadori. All remaining misconceptions are, of course, entirely my responsibility.

6 As one commentator remarked, Ricardo “meets you upon every subject that he has studied with ... opinions in the nature of mathematical truths” (Works VIII, p. 152 n. 2).

7 While Ricardo typically assumed wages paid *ante factum* (i.e. at the beginning of the uniform period of production), Sraffa assumed wages paid *post factum* (i.e. at its end). However, as can easily be shown this difference does not substantially affect the general argument in the above.

8 Ricardo's basic intuition extended to the cases of fixed capital and scarce land, and also in these respects he can be said to have been on the right scent, deficiencies of his analysis notwithstanding: several of his basic ideas were later given a coherent form by V. K. Dmitriev, Ladislaus von Bortkiewicz, Paul A. Samuelson, Luigi Pasinetti and especially Piero Sraffa.

9 For the following, see also Kurz ([2011](#)).

10 Paul Samuelson once asked Sraffa, whether Ricardo held a labour theory of value. Sraffa is reported to have answered: “He did and he didn't.” What might at first sight be considered a sibylline response turns out to reflect properly Ricardo's point of view, which, for example, in the third edition of the Principles comes to the fore when Ricardo speaks “of labour as being the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative value of commodities” (Works I, p. 20; emphasis added). The following note Sraffa wrote in November 1927 may be read as a comment on Ricardo's statement: “It is the whole process of production that must be called 'human labour', and thus causes all product and all values. Marx and Ricardo used 'labour' in two different senses: the above, and that of one of the factors of production ('hours of labour' or 'quantity of labour' has a meaning only in the latter sense). It is by confusing the two senses that they got mixed up and said that value is proportional to quantity of labour (in second sense) whereas they ought to have said that it is due to human labour (in first sense: a non-measurable quantity, or rather not a quantity at all).” (Sraffa Papers D3/12/11: 64; emphasis in the original) A confusion of the two senses is widespread in the literature on Ricardo. For example, Mary Morgan recently wrote: “it is labour alone that creates value, and ... there is a direct relationship between labour input and value” (Morgan [2012](#), p. 60; emphasis added).

As we have just seen, Ricardo was decidedly not of this opinion. However, unable to solve the problem of value and distribution to his own satisfaction, Ricardo clung to the labour embodiment hypothesis; see in this regard the rough draft and unfinished manuscript on “Absolute Value and Exchangeable Value”, written in 1823 shortly before he passed away (see Works IV).

11 One should recall however that “corn” in Ricardo's early reasoning was a term designated to encompass all necessaries, like “bread” in the Bible (a meaning William Petty took up), and thus represented a bundle of commodities.

12 For the following, see Gehrke et al. ([2003](#)).

13 It is not difficult to rectify Ricardo's second numerical example and bring it into line with the first one without affecting the substance of what he says; see Gehrke et al. ([2003](#), p. 296).

14 Ricardo himself deplored his problems with “the difficult art of composition” (Works VII, p. 19). Indeed, as several commentators observed, the structure of the Principles leaves much to be desired and reflects the hurry in which it has been put together.

15 For the following, see Kurz and Salvadori ([2009, 2011](#)).

16 John Stuart Mill reiterated Ricardo's position, but went a step further. He insisted that the working of exhaustible resources is similar to the working of land (a resource that is taken to be inexhaustible); that in both kinds of activities there are two antagonistic forces at work – diminishing returns and technical progress; and that the potential for technical progress is larger in the mining and other extraction processes than in agriculture (see Mill, [1965](#), p. 495). But then he even opined that “the almost inevitable progress of human culture and improvement ... forbids us to consider [the exhaustion] as probable” (p. 496; emphasis added). See in this context also Krautkraemer ([1998](#)) on the poor empirical performance of the Hotelling Rule.

17 For the following, see Jeck and Kurz ([1983](#)) and Kurz ([2010, section 3](#)).

18 For a discussion of Marx's views on the matter and his indebtedness to Ricardo, see Kurz ([2010, section 4](#)).

19 The following draws on Kurz ([2014](#)). Sraffa ([1930](#)) corrected a misinterpretation of Ricardo's famous numerical example by John Stuart Mill. This misinterpretation may be said to have triggered readings of Ricardo that eventually led up to the unfortunate

modern textbook interpretation. Ruffin (2002) deserves the credit for having rediscovered Sraffa's correction. However, as Gehrke (2015, in this volume) has shown convincingly, Ruffin had difficulties, in Keynes's words, "to escape habitual modes of thought and expression." In interpreting the route via which Ricardo is supposed to have discovered the principle of comparative cost, Ruffin looked at him through the distorting lens of marginalist theory. For a complementary discussion of Ricardo's theory of foreign trade to the one given here, see Faccarello (2015, in this volume) and Maneschi (2015).

20 There is no presumption that cloth and wine are the only commodities produced or consumed in the two countries. However, all other commodities remain in the background in Ricardo's analysis and will also do so here.

21 Some commentators took the first step of his analysis (reflecting his research method) wrongly for a factual statement about the unimportance of technical progress; see most recently Piketty (2014, pp. 5–7). (For a criticism of this view, see the argument in previous sections and Kurz 2010.) The fact is that Ricardo was keen to abstain from speculating about future technical improvements, because no reliable knowledge on them was available. He stressed, however, that "it is no longer questioned" that improved machinery "has a decided tendency to raise the real wage of labour" (Works IV, p. 35; see also VIII, p. 171), without necessitating a fall in the rate of profits, and that there are no indications that capital accumulation will slow down because of a lack of profits.

22 According to Adam Smith's argument about the social division of labour, which Ricardo accepted, it even exhibits dynamically increasing returns. In Smith the invention of improved machines both results from and propels forward the division of labour (see [WN](#) I.i.8). It is therefore interesting to note that when Ricardo discusses the factors counteracting a fall in the general rate of profits he explicitly refers to "the improvements in machinery, by the better division and distribution of labour, and by the increasing skill, both in science and art, of the producers" (Works I, p. 94).

23 These considerations echo an argument Smith had invoked in *The Wealth of Nations* in order to describe the socially beneficial working of the "invisible hand". By investing at home capitalists promote not only their own interest in profits and security, but also unconsciously the interest of their home country, by giving employment to their fellow-countrymen (see [WN](#) IV.ii.5).

24 This is why I find Ruffin's contention ([2005](#), p. 705) that it took Ricardo a "great and sustained mental effort" to arrive at the principle of comparative advantage dubious. The textual evidence he puts forward does not support his case; see Gehrke ([2015](#)).

25 The passage cited actually refers to the effect of technical progress in one line of production in one of the countries on the pattern of specialization (Works I, pp. 137–40). It has been adapted to the case we are concerned with.

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