

History of Economic Thought: David Ricardo

Altug Yalcintas

Ankara University

altug.yalcintas@politics.ankara.edu.tr

David Ricardo (1772-1823)



- Son of a Dutch family migrated to England
- **1799:** Reads Smith's *the Wealth of Nations*
- **1819-1823:** A member of the *House of Commons*

Books

- **1810:** *The High Price of Bullion, a Proof of the Depreciation of Bank Notes*
- **1815:** *Essay on the Influence of a Low Price of Corn on the Profits of Stock*
- **1817:** *The Principles of Political Economy and Taxation*

David Ricardo (1772-1823)

(Some of) His contributions

The theory of value

The theory of rents and the law of diminishing returns

The principle of comparative advantage

His influence on Marx (and the theory of social classes)

Ricardian equivalence

David Ricardo (1772-1823)

The First Industrial Revolution (the last quarter of the 18th c. and later)

Corn Laws: Tariffs and strict regulations on the importation of agricultural products into England (1815-1846)

Poor Laws: Laws that provide relief for the poor (16th c. to 20th c.)

David Ricardo (1772-1823)

David Ricardo and Thomas R. Malthus

- The theory of population

Dismal science: Capitalists vs. aristocracy

- **From social harmony (AS) to class conflict (DR)**

David Ricardo (1772-1823)

Ricardian Vice (Ricardocu Kahabat)

- Abstraction and isolation in economic theory
- Models in economics
- Prototypes. No history.
- Intense analytical prose / narration.
- Mechanisms and laws
- The use (and abuse) of mathematics in economics:
- Ricardo → Cournot → Jevons ... → the present

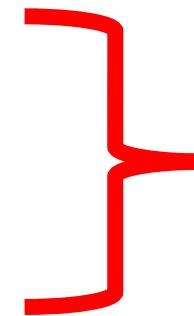
Theories of value

Theories of Value: judgements regarding the principles, importance, utility, usefulness of an object.

Consider the following statements:

Mary is valuable for me → She's my best friend.

My iPhone is valuable for me → It's expensive.



PRICE ≠ VALUE*

* Don't be a cynic!

“A cynic is a man who knows the price of everything and the value of nothing”
Oscar Wilde

Theories of value

Theories of Value: judgements regarding the principles, importance, utility, and usefulness of an object.

Significance of the theory of value (for economists): Is an objective measure of the value of commodities possible?

According to classical political economists, yes it is: **labour.**

Labour Theory of Value: The value of a commodity is equal to (or measured by) the amount of labour-time spent during the production process.

The Ricardian labour theory of value

A criterion to measure the value of commodities? Yes, labour!

However, unlike AS, DR was interested in the relative value of commodities and the relative quantity of labour

$$L_{\text{wine}} / L_{\text{textiles}}$$

The Ricardian labour theory of value

A criterion to measure the value of commodities? Yes, labour!

However, unlike AS, DR was interested in the relative value of commodities and the relative quantity of labour

$$L_{\text{wine}} / L_{\text{textiles}}$$

* The relative value of labour changes only when new technologies are introduced.

The Ricardian labour theory of value

A criterion to measure the value of commodities? Yes, labour!

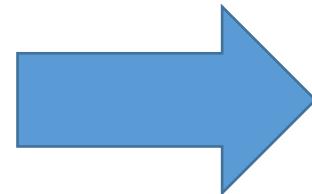
However, unlike AS, DR was interested in the relative value of commodities and the relative quantity of labour

$$L_{\text{wine}} / L_{\text{textiles}}$$

* In other words, the price of labour (i.e. wages) has nothing to do with the value of a commodity.

The Ricardian labour theory of value

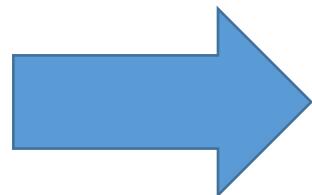
The labour process (the process in which workers spend hours and days of labour-time to produce a commodity)



A qualitative process

vs.

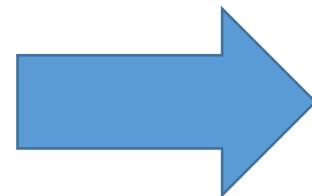
Determination of wage levels



A quantitative process

The Ricardian labour theory of value

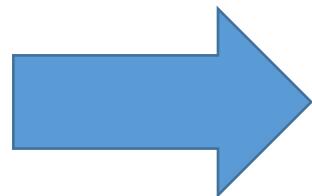
The labour process (the process in which workers spend hours and days of labour-time to produce a commodity)



A qualitative process

vs.

Determination of wage levels
(in equilibrium: subsistence level)



A quantitative process

The Ricardian labour theory of value

A criterion to measure the value of commodities? Yes, labour!

How about capital goods, K, such as machinery?

Tools, machinery, and buildings are parts of a production process.

Therefore, they can be expressed in labour terms as well.

K → L

The Ricardian labour theory of value

Ricardian vice:

Moral sophistication about the theory of value (AS)



Economic sophistication about the theory of value (DR)

* Value emerges in the economic realm.

The theory of rents

- “Rent” in Cambridge Dictionary

“a fixed amount of money that you pay regularly for the use of a room, house, car, television, etc. that someone else owns”
- **Rent (in economics)**: the price of land
- See also: “political rents”, “intellectual rents”, “rent seeking” etc.

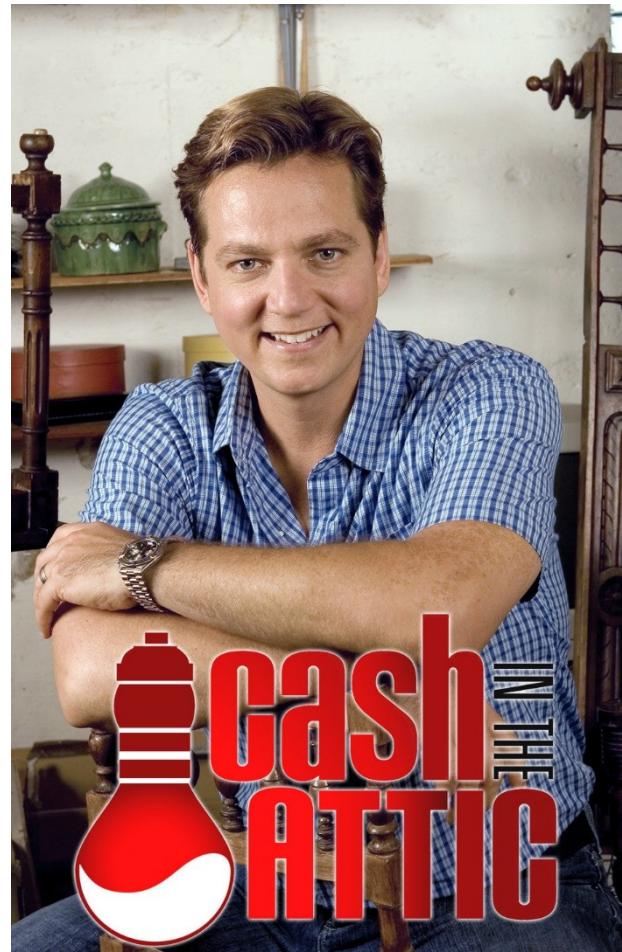
TV show recommendations

- Malikanemi Kurtar – Country House Rescue (TLC, Channel 4 ve Youtube)



TV show recommendations

- Cash in the Attic (BBC ve Youtube)



TV show recommendations

- Bargain Hunt (BBC ve Youtube)



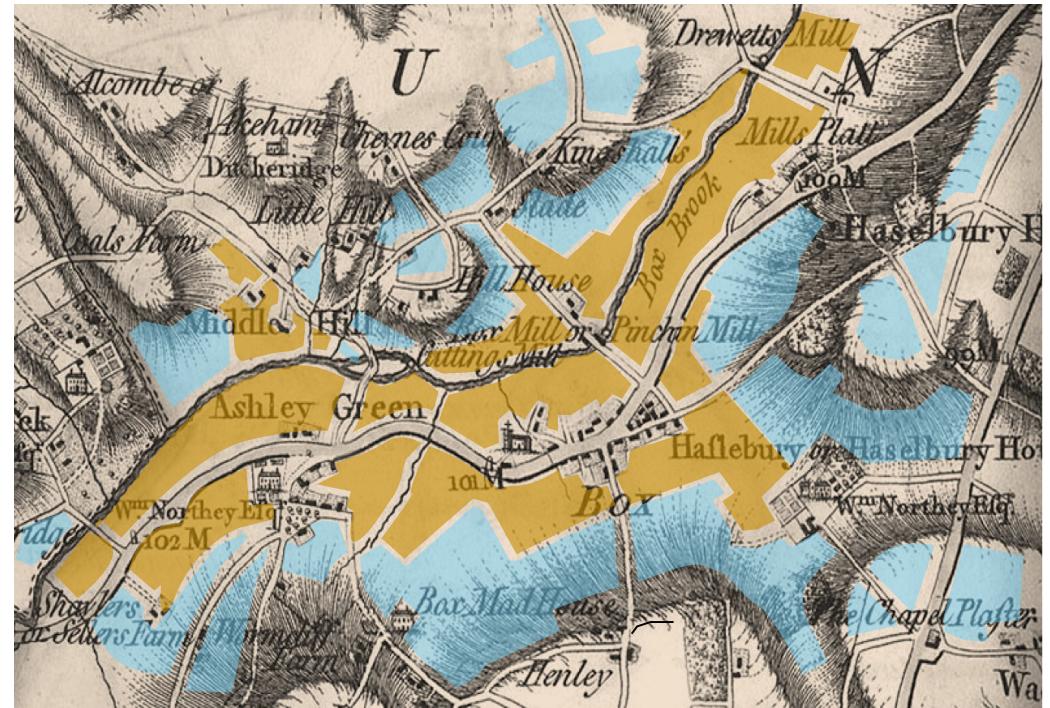
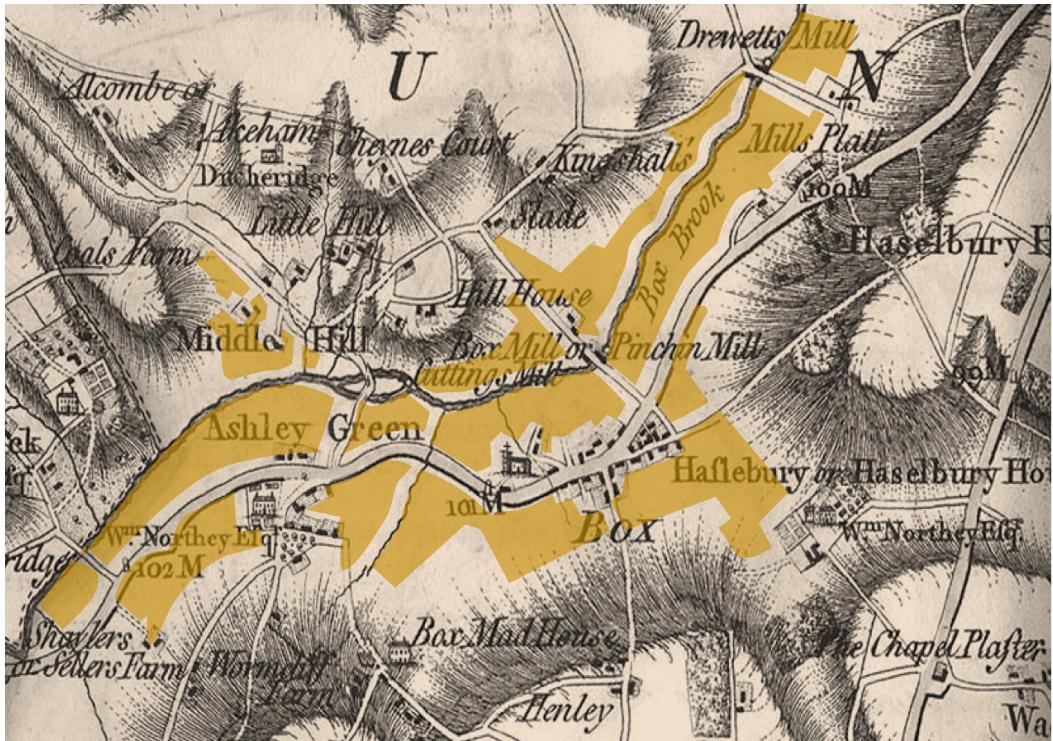
The theory of rents

- “Rent is that portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible powers of the soil” (DR, On the Principles of Political Economy and Taxation, 1817)
- “In the future pages of this work, then, whenever I speak of the rent of land, I wish to be understood as speaking of that compensation, which paid to the owner of land for the use of its original and indestructible powers” (DR, On the Principles of Political Economy and Taxation, 1817)

The theory of rents

- Why are rents so significant?
- Industrialization
- The unequal distribution of wealth between capitalists and the aristocracy (or the class conflict)
- Urbanization
- Population growth
- The law of diminishing returns

The theory of rents



The theory of rents



Brussels, Middle Ages

The theory of rents



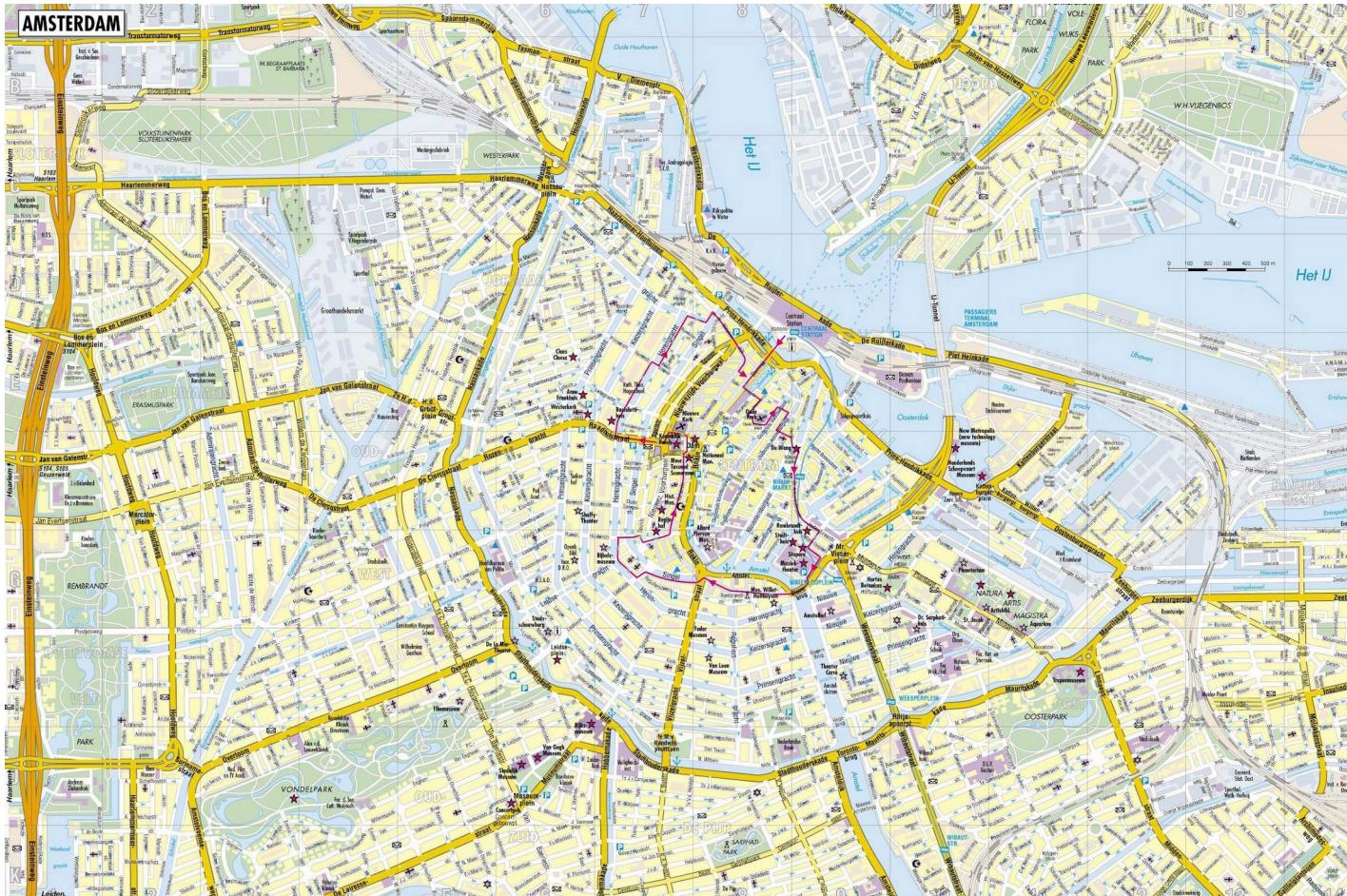
Brugge, Middle Ages

The theory of rents



Amsterdam, Middle Ages

The theory of rents



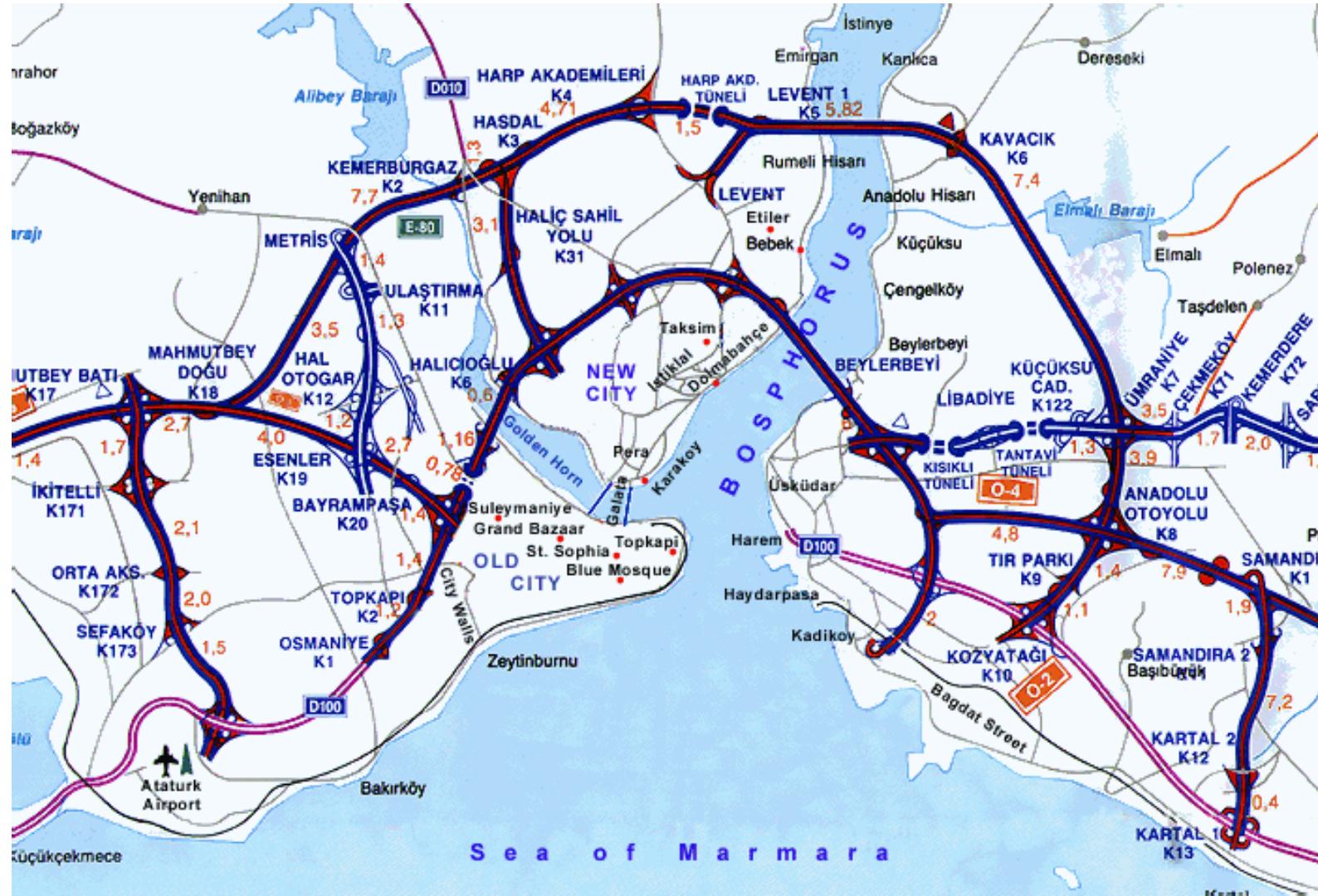
Amsterdam, Today

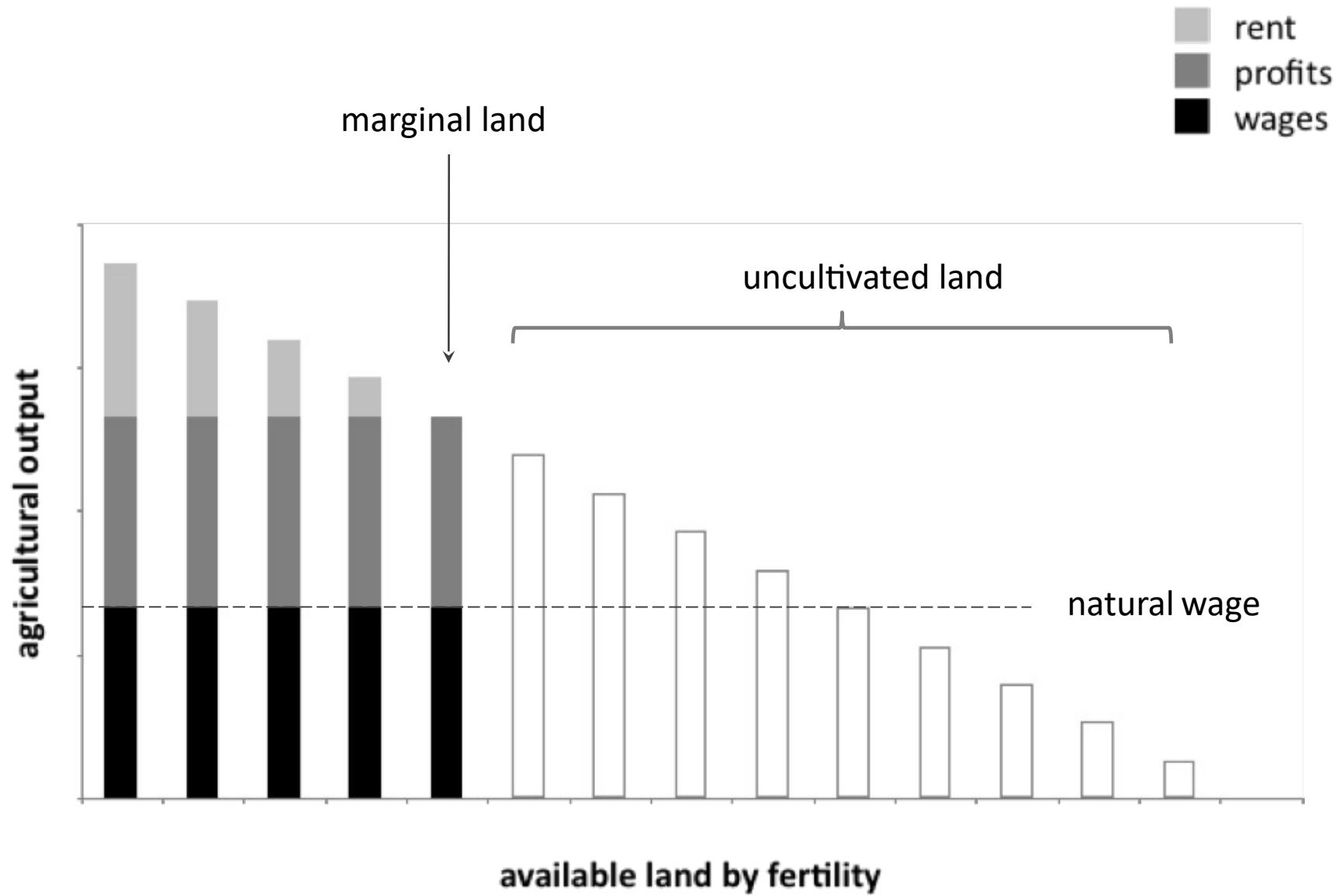
The theory of rents



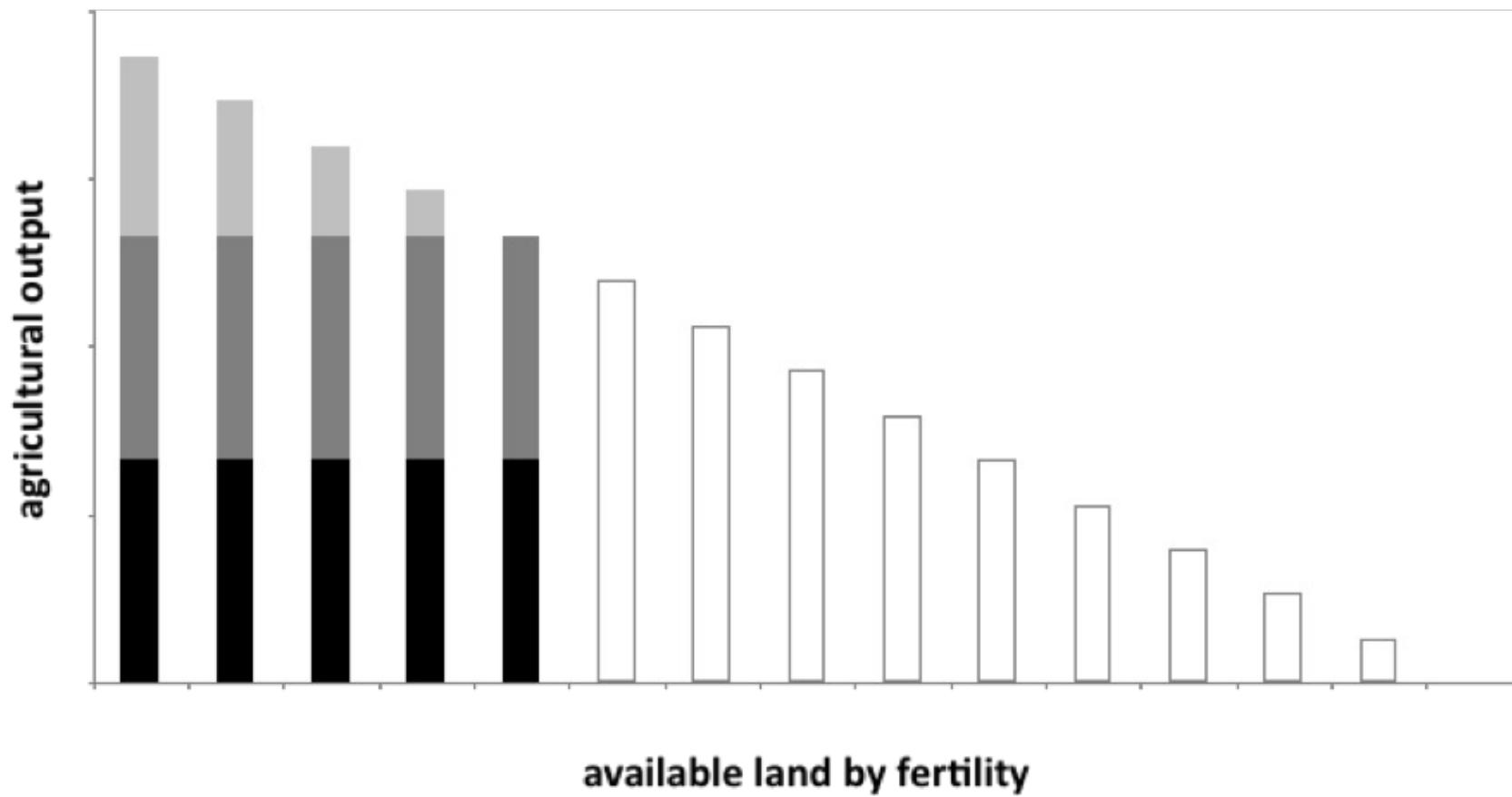
Map of
Constantinople,
1573, Simon
Pinargentis

The theory of rents

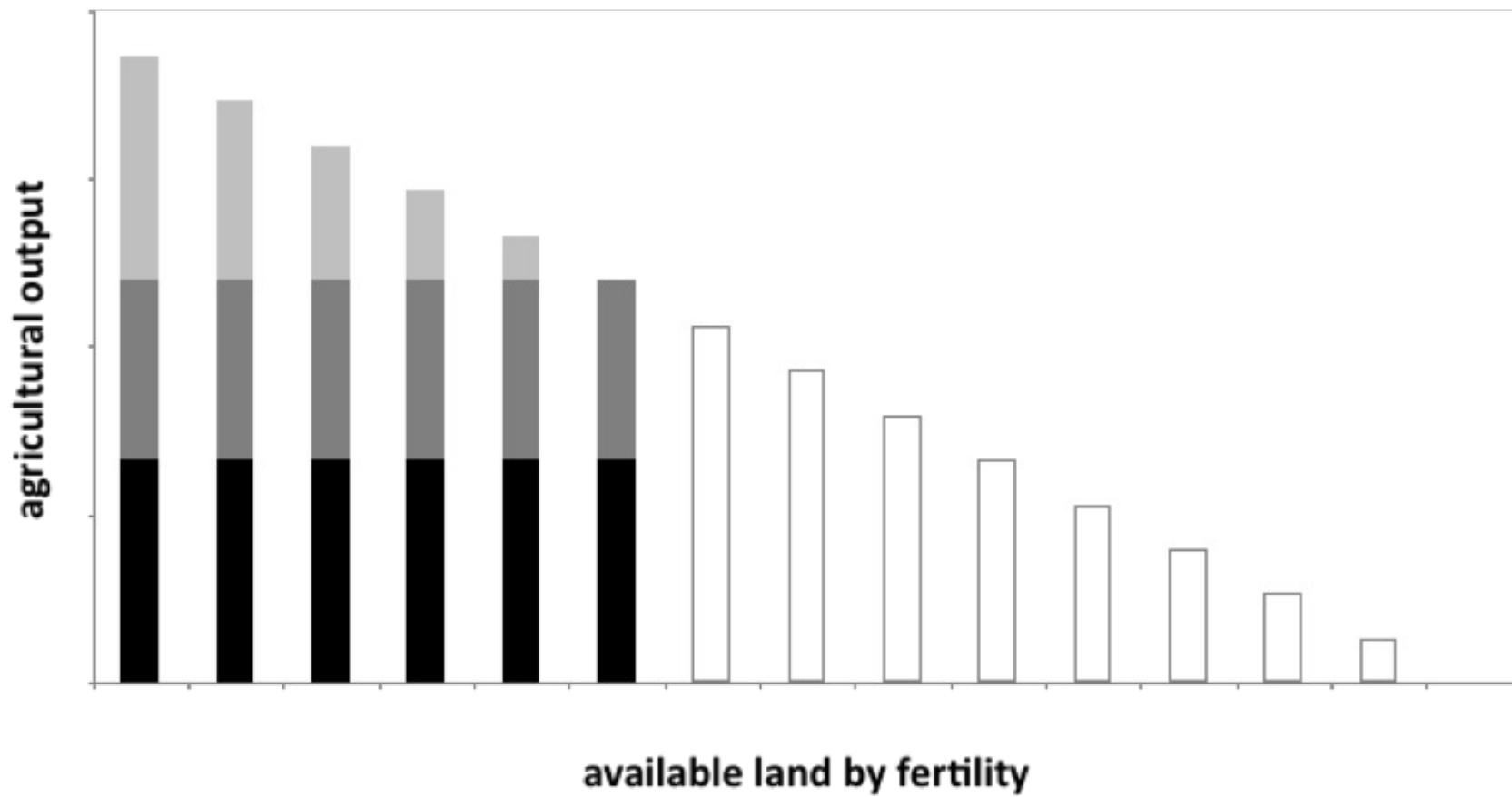




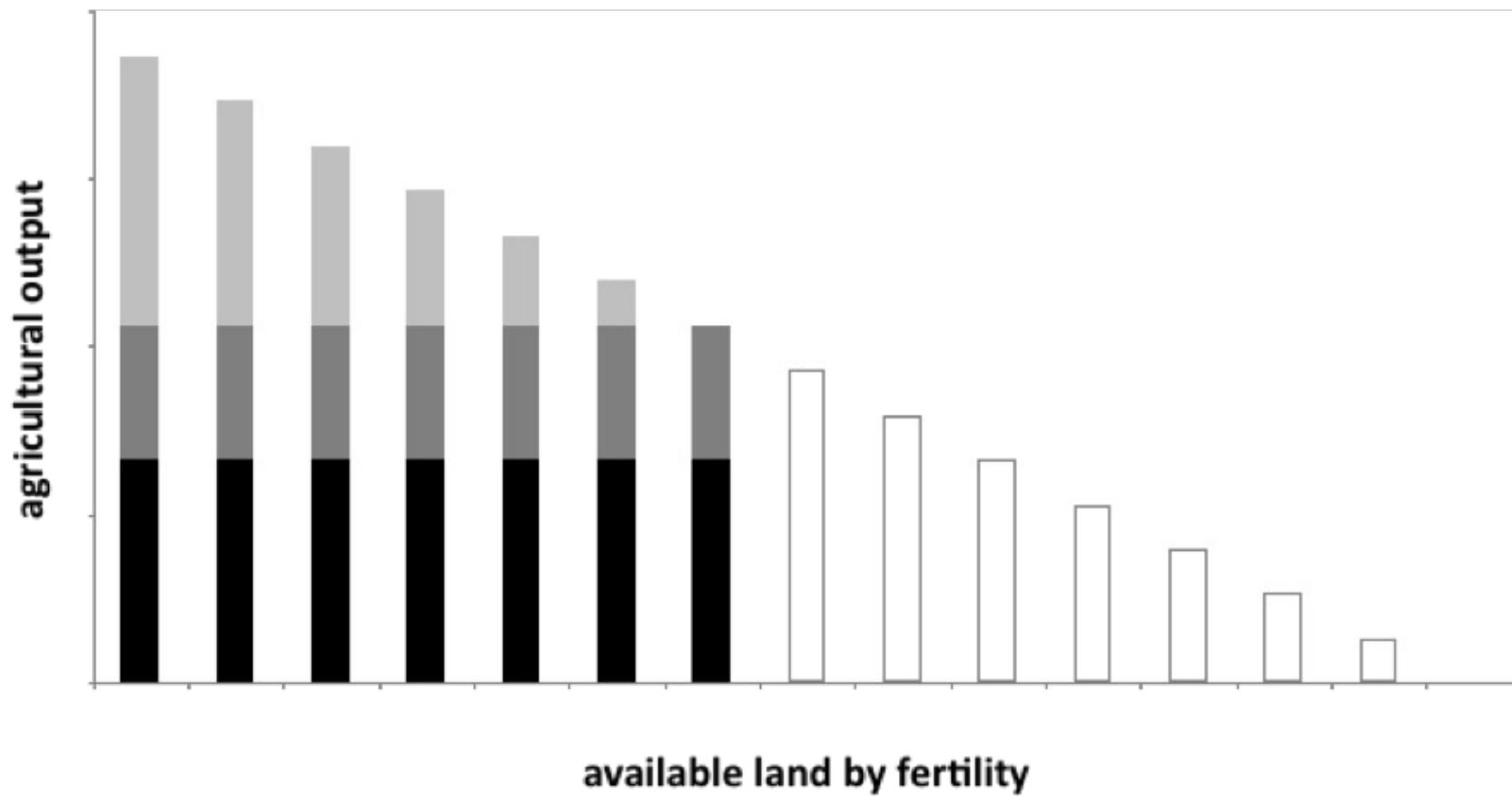
rent
profits
wages



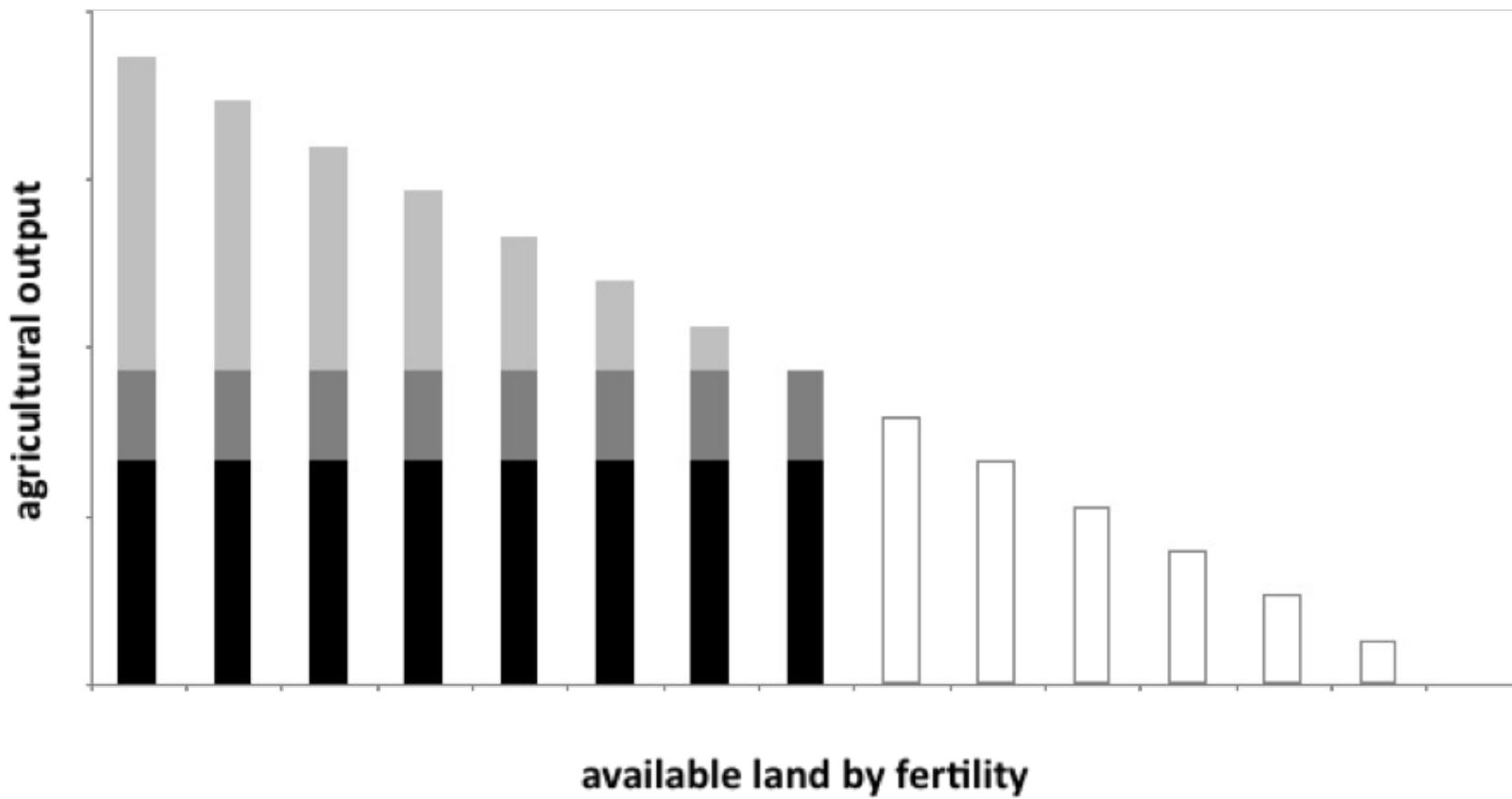
rent
profits
wages



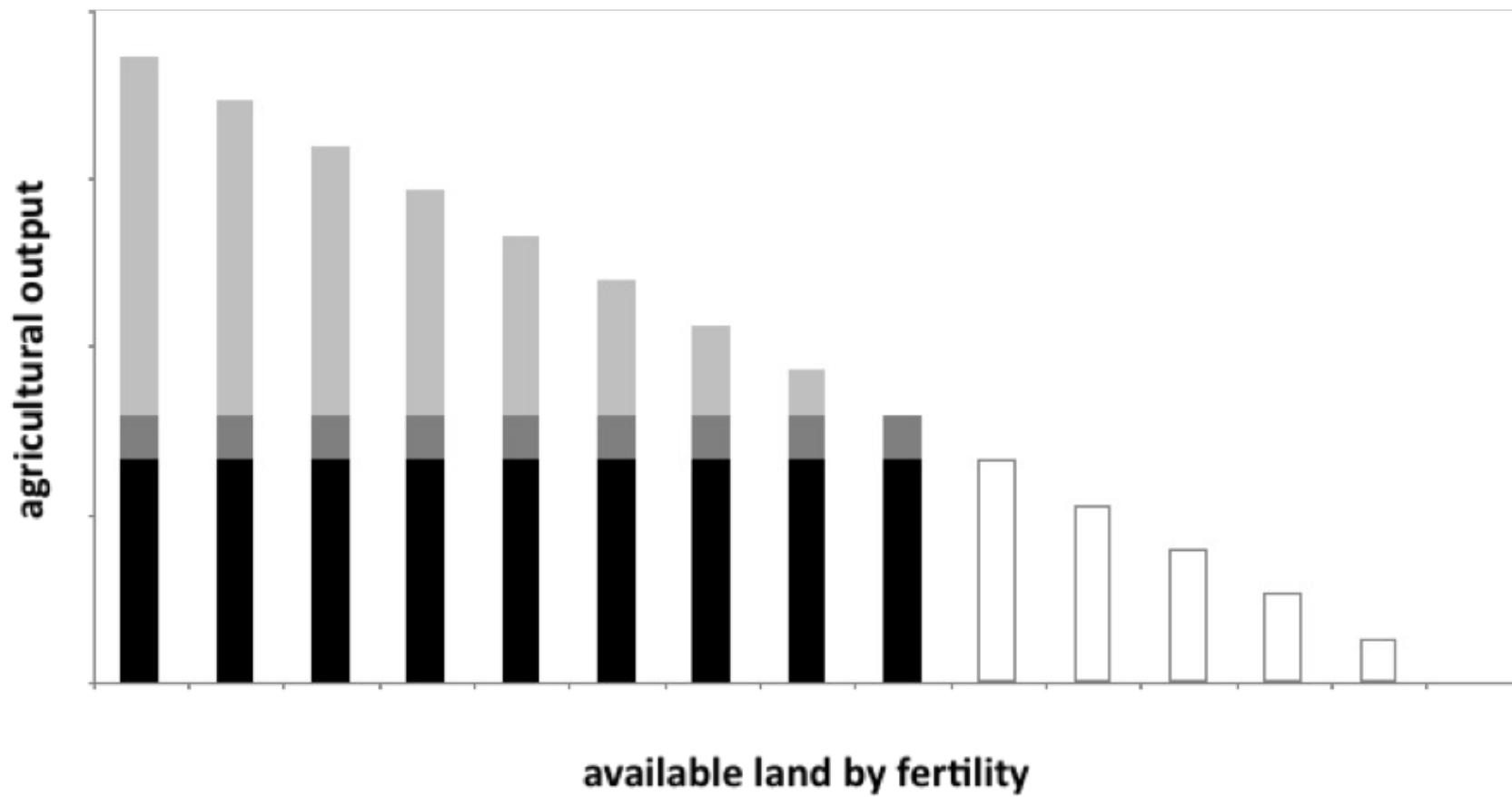
rent
profits
wages



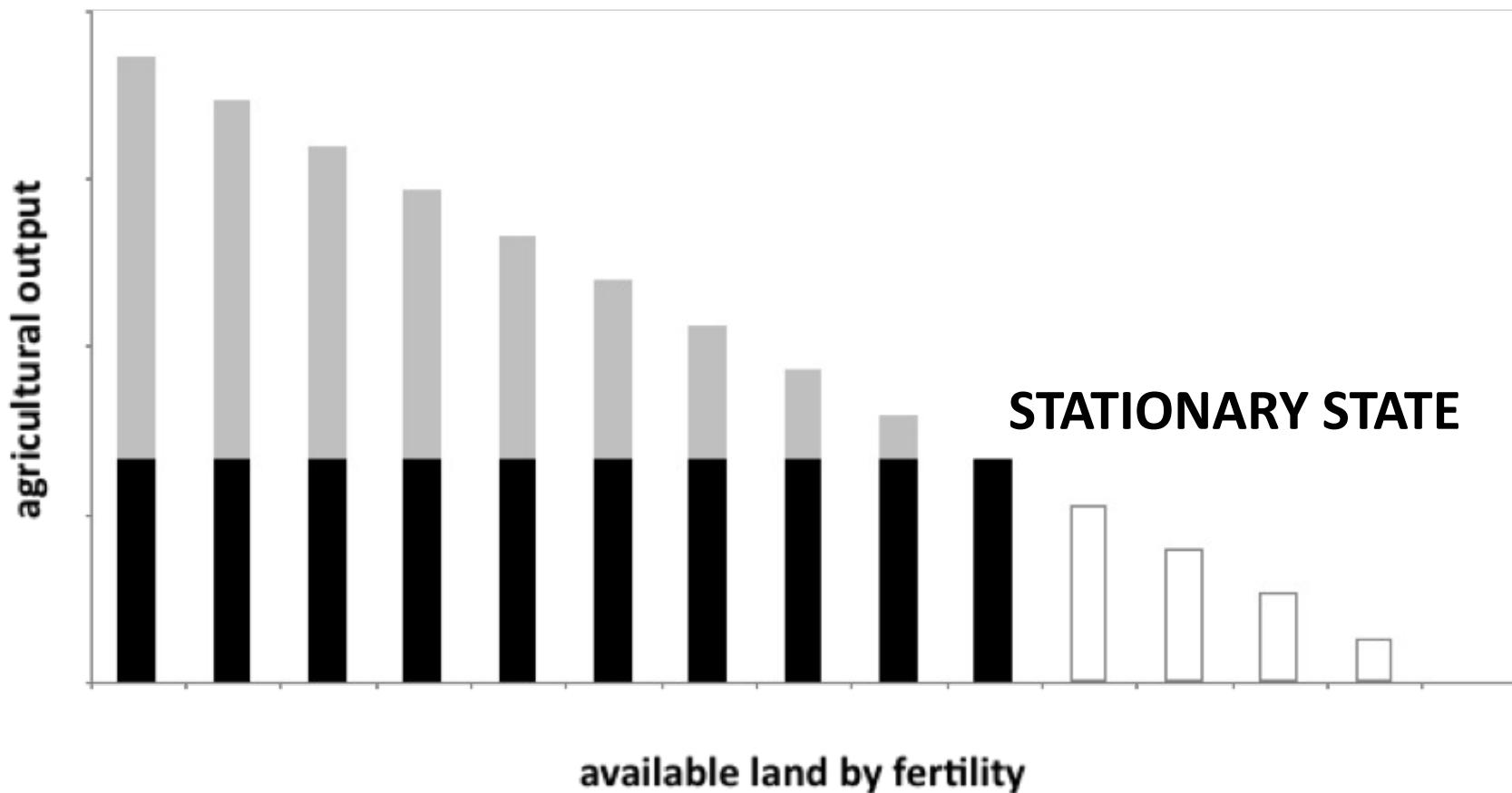
rent
profits
wages



rent
profits
wages



rent
profits
wages



The theory of rents

“Corn is not high because rent is paid, but rent is paid because corn is high” (DR, On the Principles of Political Economy and Taxation, 1817)

Rents are not a part of the process of valorisation.

Rents are the consequence of inefficiency and unproductivity.

The theory of rents

A contemporary application of DR's theory of rents:

- The construction industry in Turkey: shopping malls, highways, the Third Bridge in Istanbul, “the third” airport in Istanbul etc.

Check: <http://mulksuzlestirme.org/>

- Reflect on this: can inefficiency and unproductivity in the Turkish economy be a result of high rents?