David Ricardo

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David Ricardo, (born April 18/19, 1772, London, England—died September 11, 1823,

Gatcombe Park, Gloucestershire), English economist who gave systematized, classical form to

the rising science of economics in the 19th century. His laissez-faire doctrines were typified in

his Iron Law of Wages, which stated that all attempts to improve the real income of workers

were futile and that wages perforce remained near the subsistence level.

Ricardo was the third son born to a family of Sephardic Jews who had emigrated from the

Netherlands to England. At the age of 14 he entered into business with his father, who had

made a fortune on the London Stock Exchange. By the time he was 21, however, he had

broken with his father over religion, became a Unitarian, and married a Quaker. He continued

as a member of the stock exchange, where his talents and character won him the support of

an eminent banking house. He did so well that in a few years he acquired a fortune, which

allowed him to pursue interests in literature and science, particularly in the fields of

mathematics, chemistry, and geology.

Ricardo’s interest in economic questions arose in 1799 when he read Adam Smith’s Wealth of

Nations. For 10 years he studied economics, somewhat offhandedly at first and then with

greater concentration. His first published work was The High Price of Bullion, a Proof of the

Depreciation of Bank Notes (1810), an outgrowth of letters Ricardo had published in the

Morning Chronicle the year before. His book refueled the controversy then surrounding the

Bank of England: freed from the necessity of cash payment (strains from the wars with France

prompted the government to bar the Bank of England from paying its notes in gold), both the

Bank of England and the rural banks had increased their note issues and the volume of their

lending. The directors of the Bank of England maintained that the subsequent increase in

prices and the depreciation of the pound had no relation to the increase in bank credit. Ricardo

and others, however, asserted that there indeed was a link between the volume of bank notes

and the level of prices. Furthermore, they argued that the price levels in turn affected foreign

exchange rates and the inflow or outflow of gold.

It followed, then, that the bank, as custodian of the central gold reserve of the country, had to

shape its lending policy according to general economic conditions and exercise control over

the volume of money and credit. The controversy was therefore critical to the development of

theories concerning central banking. A committee appointed by the House of Commons,

known as the Bullion Committee, confirmed Ricardo’s views and recommended the repeal of

the Bank Restriction Act.

At this time Ricardo began to acquire friends who influenced his further intellectual

development. One of these was the philosopher and economist James Mill (father of John

Stuart Mill), who became his political and editorial counselor. Another friend was the Utilitarian

½ philosopher Jeremy Bentham. Still another was Thomas Malthus, best known for his theory

that population tends to increase faster than the food supply—an idea that Ricardo accepted.

In 1815 another controversy arose over the Corn Laws, which regulated the import and export

of grain. A decline in wheat prices had led Parliament to raise the tariff on imported wheat. This

provoked a popular outcry and caused Ricardo to publish his Essay on the Influence of a Low

Price of Corn on the Profits of Stock (1815), in which he argued that raising the tariff on grain

imports tended to increase the rents of the country gentlemen while decreasing the profits of

manufacturers. One year before his Corn Law essay, at the age of 42, he had retired from

business and taken up residence in Gloucestershire, where he had extensive landholdings.

Later, in Principles of Political Economy and Taxation (1817), Ricardo analyzed the laws

determining the distribution of everything that could be produced by the “three classes of the

community”—namely, the landlords, the workers, and the owners of capital. As part of his

theory of distribution, he concluded that profits vary inversely with wages, which rise or fall in

line with the cost of necessities. Ricardo also determined that rent tends to increase as

population grows, owing to the higher costs of cultivating more food for the larger population.

He supposed that there was little tendency to unemployment, but he remained guarded

against rapid population growth that could depress wages to the subsistence level, which

would thereby limit both profits and capital formation by extending the margin of cultivation. He

also concluded that trade between countries was influenced by relative costs of production and

by differences in internal price structures that could maximize the comparative advantages of

the trading countries.

Although he built in part upon the work of Smith, he defined the scope of economics more

narrowly than had Smith and included little explicit social philosophy. In 1819 Ricardo

purchased a seat in the House of Commons, as was done in those times, and entered

Parliament as a member for Portarlington. He was not a frequent speaker, but so great was his

reputation in economic affairs that his opinions on free trade were received with respect, even

though they did not represent the dominant thinking in the House. Illness forced Ricardo to

retire from Parliament in 1823. He died that year at the age of 51.

Despite his relatively short career and the fact that most of it was preoccupied with business

affairs, Ricardo achieved a leading position among the economists of his time. His views won

considerable support in England despite the abstract style in which he set them forth and in the

face of heavy counterfire from his opponents. Although his ideas have long since been

superseded or modified by other work and by new theoretical approaches, Ricardo retains his

eminence as the thinker who first systematized economics. He also treated monetary

questions and taxation at length. Writers of various persuasions drew heavily upon his ideas,

including those who favoured laissez-faire capitalism and those, such as Karl Marx and Robert

Owen, who opposed it.

Joseph J. Spengler