finished the determination of wages, which so far we have said is precisely fixed at the subsistence level. What will happen to the costs of subsistence over time? They will rise as the cost of the production of corn rises with the increasing population, forcing the cultivation of ever more inferior lands. Over time, in the slow-moving long-run Ricardian equilibria, the cost of food will rise, and since wages must *always* be at the subsistence level, wages will *have* to rise to maintain *real* wage rates equal to the cost of subsistence. Now we begin to close the Ricardian circle. Rents are in effect zero, and wage rates, always at subsistence, must rise over time as the cost of food increases, in order to keep precise pace with the rising cost of subsistence. But, then – voilà! – we have finally determined all the variables except profits (at least to Ricardo's satisfaction), and, since total income is 'given' or kept frozen, this means that profits are the residual from total income. With rents out of the picture, if wage rates have to keep rising over time, this necessarily means that profits, or profit rates, have to keep falling. Hence the Ricardian doctrine of the ever-falling rate of profit (i.e. long-term rate of interest). Note that this is not the same as Adam Smith's view that the profit rate falls over time because and in so far as capital continues to accumulate; profit was supposed to be an inverse function of the stock of capital. Ricardo's doctrine of the falling rate of profit follows by triumphant tautology from his attempt to determine the other factor shares of total income. When profits fall to zero, or at any rate to a low level, capital will cease to accumulate and we arrive at Ricardo's 'stationary state'.

Ricardo, even more than Smith, totally leaves out the entrepreneur. There can be no role for the entrepreneur, after all, if everyone is always in long-run equilibrium and there is never risk or uncertainty. His 'profits', as in Smith, are the long-run rate of return, i.e. the rate of interest. In long-run equilibrium, furthermore, all profits are uniform, since firms rapidly move out of low-profit industries and into high-profit ones until equalization takes place. We then have 'profits' at a uniform rate throughout the economy at any given time.

A plausible insight into Ricardo's habitual confusion of long-run equilibrium and instantaneous adjustments with the real world has been offered by Professor F.W. Fetter. Fetter points out that Ricardo's practical familiarity was not with business and industry (as was, we might note, J.B. Say) but with the bond and foreign exchange markets. Ricardo 'usually assumed that even in industry and agriculture, adjustment took place on the basis of as small price differences, and almost as quickly, as did arbitrage in government securities and in foreign exchange'.[6]

To return to the Ricardian world: note that Ricardo does *not* say that the cost of corn rises over time because rents keep rising on corn land. He must get rid of the rent variable, and he can only do so by assuming that rent is zero at the margin, and therefore never forms any part of costs. Rent, then, is effectively zero. Why then does the cost of corn rise? As we have indicated, because the quantity of labour needed to produce corn, and hence the cost of producing corn, rises over time. This brings us to Ricardo's theory of cost and value. Rents are now out of it. Wages are not costs either, because a key to Ricardo's system is that rising wages lead only to lower profits, and *not* to higher prices. If rising wages meant that costs increased, then Ricardo, who as we shall see had a cost-theory of value and price, would have to say that prices rose rather than that profits would necessarily fall. Wages he treated as uniform, since Ricardo, like Marx after him, maintained that labour was homogeneous in quality. Not only did that mean that wages were uniform; but Ricardo could then treat, as the crucial part of its labour cost, the quantity of labour embodied in any product. Differences in quality or productivity of labour could then be dismissed as simply trivial and as a slightly more complex version of the quantity of labour hours. Quality has been quickly and magically transformed into quantity.

We have reached the edge of the Ricardian – and Marxian – labour theory of value. So far we just have a labour-quantity theory of cost. Ricardo vacillated at this point, between a strict labour theory of cost, and a labour-quantity theory plus the uniform rate of profit. But, since the uniform rate of profit, presumably around 3–6 per cent, is small compared to the quantity of labour hours, Ricardo may be pardoned for dismissing the profit-rate part of cost as of trivial importance. And, since all profit rates are assumed to be uniform, and, as we shall see, Ricardo had a cost theory of value or price, he could easily dismiss the uniform and small proportion, profit, as of no account in explaining relative prices.

It is, of course, peculiar to consider profits, even profits as long-run interest, as part of the 'costs' of production. Again, this usage stems from eliminating any consideration of entrepreneurial profits and losses, and focusing on interest as a long-run 'cost' of inducing savings and the accumulation of capital.

If profits for Ricardo are always uniform, how is this uniform profit determined? Curiously, profits are *in no way* related to savings or capital accumulation; for Ricardo, they are only a residual left over after paying wages. In short, to hark back to our original equation of Ricardian distribution: total output (or income) = rent + profits + wages. Remarkably, Ricardo has attempted to determine all the variables with *only* one variable explicitly determined. Output, as we have seen, was assumed as mysteriously given, from outside the Ricardian system. Wages ('the' uniform wage throughout the economy) is the only explicitly determined variable, determined completely to equal the cost of subsistence, embodied in the cost of producing corn. But that leaves *two* residuals, rents and profits, to be determined. The way Ricardo tries to get around that problem is to dispose of rents. Rents are the differential between the lands in cultivation and the least productive, zero-rent, land in use. The cost of producing corn is equal to the quantity of labour hours embodied in its production. Since rents are zero at the margin, they do not enter into costs, and are passively determined; at the no-rent margin, labour and capital's shares exhaust output. And since wages are supposedly determined by the cost of raising corn, this means that profit *can only* be a truistic residual of wages, otherwise the variable would be overdetermined, and the system would evidently collapse.

The alleged historical laws follow from the model. Since increasing population forces more and more inferior land into cultivation, the cost of labour in producing corn (i.e. the quantity of labour hours needed to produce it), must keep rising. And since price is determined by cost, supposedly boiled down into the quantity of labour hours to produce the good, this means that the price of corn must keep rising over time. But since *real* wage rates are fixed always at the cost of subsistence, and this is assumed to be the price of corn, money wage rates must keep rising over time (while workers remain at the subsistence level), and therefore profits must keep falling in the course of history.

Adam Smith believed that the rate of profit, or the long-run rate of interest return, is determined by the quantity of accumulated capital, so that more capital will lead to a falling rate of profit. While this theory is not fully correct, it at least understands that there is *some* connection between saving, capital accumulation, and long-run interest or profit. But to Ricardo there is no connection whatever. Interest on capital is only a residual. By a series of fallacies, and holistic, locked-in assumptions, trivial conclusions are at last ground out, all with a portentous air, allegedly telling us conclusive insights about the real world. As Schumpeter scornfully puts it: propositions such as 'profits depend upon wages', and the falling rate of profit, are excellent examples of 'that Art of Triviality that, ultimately connected with the Ricardian Vice, leads the victim, step by step, into a situation where he has got either to surrender or to allow himself to be laughed at for denying what, by the time that situation is reached, is *really* a triviality'.[7]

3.5 Ricardo and the Ricardian system, II: the theory of value

This brings us to Ricardo's theory of value, or price. While Ricardo formally admitted that supply and demand determine day-to-day market pricing, he tossed that aside as of no consequence, and concentrated solely on long-run equilibrium, i.e. 'natural' price and the alleged macro-distribution of income in that equilibrium. Utility Ricardo brusquely disposed of as ultimately necessary to production but of no influence whatever on value or price; in the 'value paradox' he embraced exchange value and abandoned utility completely. Not only that: he frankly and boldly discarded any attempt to explain the prices of goods that are not reproducible, that could not be increased in supply by the employment of labour. Hence Ricardo simply gave up any attempt to explain the prices of such goods as paintings, which are fixed in supply and cannot be increased. In short, Ricardo abandoned any attempt at a *general* explanation of consumer prices. We have arrived at the full-fledged Ricardian – and Marxian – labour theory of value.

The Ricardian system is now complete. Prices of goods are determined by their costs, i.e. by the quantity of labour hours embodied in them, trivially plus the uniform rate of profit. Specifically, since the price of each good is uniform, it will equal the cost of production on the highest-cost (i.e. zero-rent) or marginal land in cultivation. In short, price will be determined by cost, i.e. the quantity of labour hours on the zero-rent land used to work on the product. As time goes on, then, and population increases, poorer and poorer soils must be brought into use, so that the cost of producing corn continues to increase. It does so because the quantity of labour hours needed to produce corn keeps increasing, since labour must be employed on ever poorer soil. As a result, the price of corn keeps increasing. Since wage rates are always kept precisely at the subsistence level (the cost of growing corn) by population pressure, this means that money wage rates must continue to increase over time in order to keep *real* wage rates in pace with the ever-rising price of corn. Wage rates must increase over time, and hence profits must keep falling until they are so low that the stationary state is reached.

To return to the idea of rent as not entering into cost: if we focus, as we should on the 'micro' – on the individual farmer or capitalist – it should be clear that the individual *must* pay rent in order to gain use of any particular plot of land in the productive process. To do so, he must outbid other firms in his own as well as other industries. Ricardo's refusal to even consider the individual firm, and his focus on holistic aggregates, enables him to overlook the fact that rents, even if differentials, enter into costs the way *every* expense on factors of production enters into them. This is the only way that is real and that counts in the real world: the point of view of the individual firm or entrepreneur. There is, in fact, no 'social' point of view, since 'society' as an entity does not exist.

Ricardo's system is both gloomy and rife with allegedly inherent class conflict on the free market. First, there is tautological conflict because, given the fixed total, the income shares of one macro-group can only increase at the expense of another. But the point of the free market in the real world is that generally production increases, so that the total pie tends to keep rising. And, second, if we focus on individual factors and on how much they earn, as does the later marginal productivity theory (and as did J.B. Say), then each factor tends to earn its marginal product, and we need not even concern ourselves with the alleged but non-existent laws and conflicts of macro-class income distribution. Ricardo kept his eye unerringly on the radically wrong problem – or rather, problems.

But there is even more class conflict here than implied by Ricardo's tautological macro-approach. For if value is the product solely of labour hours, then it becomes easy for Marx, who was after all a neo-Ricardian, to call all returns to capital exploitative deductions from the whole of 'labour's' product. The Ricardian socialist call for turning over all of the product to labour follows directly from the Ricardian system – although Ricardo and the other orthodox Ricardians did not of course make that leap. Ricardo would have countered that capital represents embodied or frozen labour; but Marx accepted that point and simply riposted that all labour producers of capital, or frozen labour, should obtain their full return. In fact, *neither* was right; if we wish to consider capital goods as frozen *anything*, we would have to say, with the great Austrian Böhm-Bawerk, that capital is frozen labour and *land* and *time*. Labour, then, would be earning wages, land would earn rent, and interest (or long-run profits) would be the price of time.

Recent analysts, in an attempt to mitigate the crude fallacy of Ricardo's labour theory of value, have maintained, as in the case of Smith but even more so, that he was attempting not so much to explain the cause of value and price but to *measure* values over time, and labour was considered an invariable measure of value. But this hardly mitigates Ricardo's flaws; instead, it adds to the general fallacies and vagaries of the Ricardian system *another important* one: the vain search for a non-existent chimera of invariability. For values always fluctuate, and there is no invariable, fixed base of value from which other value changes can be measured.

Thus, in rejecting Say's definition of the value of a good as its purchasing power of other goods in exchange, Ricardo sought the invariable entity, the unmoved power:

> A franc is not a measure of value for any thing, but for a quantity of the same metal of which francs are made, unless francs, and the thing to be measured, can be referred to some other measure which is common to both. This, I think, they can be, for they are both the result of labour; and, therefore, labour is a common measure, by which their real as well as their relative value may be estimated.

It might be noted that both products are the result of capital, land, savings, and entrepreneurship, as well as labour, and that, in any case, their values are incommensurable except in terms of relative purchasing power, as Say had in fact maintained.

Part of Ricardo's impassioned quest for an invariable measure of values undoubtedly stemmed from his deep-dyed scientism. Ricardo was almost as interested in the natural sciences as in economics. From his early youth, Ricardo was keenly interested in the natural sciences, in mathematics, chemistry, mineralogy and geology. He joined the Geological Society in his 30s shortly after it was founded. It is probable that Ricardo's quest for an invariable measure of values was based on the physical science model; if 'scientific' in the physical sciences meant measurement, then surely this would be required in the human sciences as well. As Emil Kauder wrote, 'I venture to say that Ricardo and his contemporaries believed that economics could only reach the dignity of a science if it could be based on objective measures like the Newtonian Physics'.[8]

An even stronger and more direct class struggle than that implied by the labour theory of value stemmed from Ricardo's approach toward landlords and land rent. Landlords are simply obtaining payment for the powers of the soil, which, at least in the hands of many of Ricardo's followers, meant an unjust return. Furthermore, Ricardo's gloomy vision of the future held that labour must be kept at subsistence level, capitalists must see their profits inevitably falling – these two classes doing as badly as ever (labour) or always worse (capital) while the idle and useless landlords keep inexorably adding to their share of worldly goods. The productive classes suffer, while the idle landlords, charging for the powers of nature, benefit at the expense of the producers.[9] If Ricardo implies Marx, he implies Henry George far more directly. The spectre of land nationalization or the single tax absorbing all land rent follows straight from Ricardo.

One of the greatest fallacies of the Ricardian theory of rent is that it ignores the fact that landlords *do* perform a vital economic function: they allocate land to its best and most productive use. Land does not allocate itself; it must *be* allocated, and only those who earn a return from such service have the incentive, or the ability, to allocate various parcels of land to their most profitable, and hence most productive and economic uses.

Ricardo himself did not go all the way to government expropriation of land rent. His short-run solution was to call for lowering of the tariff on corn, or even repeal of the Corn Laws entirely. The tariff on corn kept the price of corn high and ensured that inferior, high-cost domestic corn land would be cultivated. Repeal of the Corn Laws would enable England to import cheap corn, and thereby postpone for a time the use of inferior and high-cost land. Corn prices would for a while be lower, money wage rates would therefore immediately be lower, and profits would rise, adding to the accumulation of capital. The dread stationary state would be put further off on to the horizon.

Ricardo's other anti-landlord action was political: by entering Parliament by joining Mill and the other Benthamite radicals in calling for democratic reform, Ricardo hoped to swing political power from the grip of the aristocracy, which meant in practice the landlord oligarchy, to the mass of the people.

But if Ricardo was too individualistic or too timorous to embrace the full logical consequence of the Ricardian system, James Mill characteristically was not. James Mill was the first prominent 'Georgist', calling frankly and enthusiastically for a single tax on land rent. In his high office in the East India Company, Mill felt able to influence Indian government policies.

Before obtaining this post, Mill had characteristically presumed to write and publish a massive *History of British India* (1817) without ever having been in that country or knowing any of the Indian languages. Steeped in the contemptuous view that India was thoroughly uncivilized, Mill advocated a 'scientific' single tax on land rent. Mill was convinced as a Ricardian that a tax on land rent was not a tax on cost and *therefore* would not reduce the incentive to supply any productive good or service. Hence a tax on land rent would have no bad effect on production – it would only have the effect of eliminating the ill-gotten gains of the landlords. In effect, a tax on land rent would be no tax at all! The land tax could be up to and including 100 per cent of the social product caused by the differential fertility of the soil. The state, according to Mill, could then use this costless tax for public improvement, and largely for the function of maintaining law and order in India.

We see now the pernicious implications of the fallacious view that any part of the expense of production is in some way, from a holistic or social point of view, 'really' not a part of cost. For if an expense is not part of cost, it is in some sense not necessary to the factor's contribution to production. And therefore this income can be confiscated by the government with no ill effect. Despite the deep pessimism of Ricardo about the nature and consequences of the free market, he oddly enough cleaved strongly, and more firmly than Adam Smith, to *laissez-faire*. Probably the reason was his strong conviction that virtually any kind of government intervention could only make matters worse. Taxation should be at a minimum, for all of it cripples the accumulation of capital and diverts it from its best uses, as do tariffs on imports. Poor laws – welfare systems – only worsen the Malthusian population pressures on wage rates. And as an adherent of Say's law, he opposed government measures to stimulate consumption, as well as the national debt. In general, Ricardo declared that the best thing that government can do to stimulate the greatest development of industry was to remove the obstacles to growth which government itself created.

While Adam Smith's free market views concentrated on the sinister nature of predatory government action, Ricardo was particularly struck by government's pervasive ineptness and counterproductivity. A typical and charming note was struck in a letter from Germany by Ricardo to James Mill in 1817: 'We were very much delayed by the dilatoriness of the German Post, which being a monopoly, is of course very much mismanaged...'.

The paradox of Ricardo's gloom about the alleged class conflict on the free market and his determined opposition to virtually all government intervention was best and most wittily described by Alexander Gray:

> Such is the Ricardian scheme of distribution; in place of the old harmony of interest, he has placed dissension and antagonism at the heart of things. 'The interest of the landlord is always opposed to that of the consumer and manufacturer;' So also the interests of the worker and the employer are eternally and irreconcilably opposed; when one gains, the other loses. Further, the outlook for all, except the landlord, is a process of continual pejoration. ...Yet Ricardo remains immovably non-interventionist. 'These, then', he says, 'are the laws by which wages are regulated'; and he adds inconsequently, 'like all other contracts, wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature'. In a world of Ricardian gloom one might ask, and did in effect ask, why there should not be interference. An optimist carolling that God's in his Heaven, and that all's right with enlightened self-interest has a right to nail the *laissez-faire* flag to the mast, but a pessimist who merely looks forward to bad days and worse times ought not in principle to be opposed to intervention, unless his pessimism is so thorough-going as to lead to the conviction that, bad as all diseases are, all remedies for all diseases are even worse.[10]

Finally, a fundamental and fatal flaw in Ricardo's whole approach in his system was that he started at the wrong end. He began with his overriding focus on the laws of macro-income distribution; his theory of value and price was only a subsidiary appendage, enabling him to maintain that wages are not a part of cost, and therefore that the only influence of rising wages was to cause profits to fall. Ricardo, in short, never grasped the crucial point understood by his continental counterpart, J.B. Say: that there *are no* laws of macro-income distribution. Economics only establishes 'micro'-laws determining price, including the prices of the various factors of production. In a sense, of course, the distribution of income in practice is a spin-off of market-determined factor prices; but this 'distribution' also depends on entrepreneurial profits and losses, in short on entrepreneurial responses to risk and uncertainty, and on the supplies at any time of the respective factors. None of the latter can be determined by economic theory. Once again, David Ricardo was pursuing a chimera, and in doing so took British economic theory off on a detour, or rather into a dead end.

Put another way, the French (Cantillon–Turgot–Say) analysis of the free market demonstrated that on the market there *is no* separate 'distribution' of income process, as there indeed would be under a state-controlled, or socialist economy. 'Distribution' is the indirect consequence of free production, exchange, and price determination.[11]

All of this escaped David Ricardo, who had little or no conception of the economy as a web of 'micro'-relations linking together individual utilities, exchanges and prices. As Frank Knight has pointed out, Ricardo, in a letter to his disciple McCulloch, denied that 'the great questions' of macro-income distribution were 'essentially connected' with the theory of value. And further, Ricardo and his followers gave 'practically no hint of a system of economic organization worked out and directed by price forces'.[12]

There is another point that needs to be made about Ricardo's basic economic goal. Chiding Adam Smith for being primarily interested in the total wealth of the nation rather than in the macro-distribution of income, Ricardo pursues his Malthusian hostility to population growth by asking what is the point of looking at gross rather than net income. As Ricardo puts it, in a famous and astonishing passage:

> what would be the advantage resulting to a country from the employment of a great quantity of productive labour, if, whether it employed that quantity or a smaller, its net rent and profits together would be the same... To an individual with a capital of £20,000, whose profits were £2000 per annum, it would be a matter quite indifferent whether his capital would employ a hundred or a thousand men...provided, in all cases, his profits were not diminished below £2000. Is not the real interest of the nation similar? Provided its net real income, its rent and profits be the same, it is of no importance whether the nation consists of ten or of twelve millions of inhabitants.

The difference between ten and twelve million may not make any difference to David Ricardo, but it makes a considerable difference, I should think, to the two million who would not have been around, and to their parents, friends and relations. There is no better example of the aggregative utilitarian economist looking upon the economy from the holistic viewpoint of a social slavemaster, rather than from the point of view of individuals on the market. As Alexander Gray, in his witty and perceptive way, puts it:

> [Ricardo's] logic would lead to the desirability of the population being reduced to one, and that last remnant producing a vast net surplus with the aid of sorcery and mechanical contrivances. The repellent doctrine that man exists for the production of wealth, rather than that wealth exists for the use of man, here finds its classical utterance.[13]

3.6 The law of comparative advantage

Even the most hostile critics of the Ricardian system have granted that at least David Ricardo made one vital contribution to economic thought and to the case for freedom of trade: the law of comparative advantage. In emphasizing the great importance of the voluntary interplay of the international division of labour, free traders of the eighteenth century, including Adam Smith, based their doctrines on the law of 'absolute advantage'. That is, countries should specialize in what they are best or most efficient at, and then exchange these products, for in that case the people of both countries will be better off. This is a relatively easy case to argue. It takes little persuasion to realize that the United States should not bother to grow bananas (or, rather, to put it in basic micro-terms, that individuals and firms in the United States should not bother to do so), but rather produce something else (e.g. wheat, manufactured goods) and exchange them for bananas grown in Honduras. There are, after all, precious few banana growers in the US demanding a protective tariff. But what if the case is *not* that clear-cut, and American steel or semi-conductor firms are demanding such protection?

The law of comparative advantage tackles such hard cases, and is therefore indispensable to the case for free trade. It shows that *even if*, for example, Country *A* is more efficient than Country *B* at producing *both* commodities *X* and *Y*, it will pay the citizens of Country *A* to specialize in producing *X*, which it is *most* best at producing, and buy all of commodity *Y* from Country *B*, which it is better at producing but does not have as great a comparative advantage as in making commodity *X*. In other words, each country should produce not just what it has an absolute advantage in making, but what it is *most* best at, or even least worst at, i.e. what it has a *comparative* advantage in producing.

If, then, the government of Country *A* imposes a protective tariff on imports of commodity *Y*, and it forcibly maintains an industry producing that commodity, this special privilege will injure the consumers in Country *A* as well as obviously injuring the people in Country *B*. For Country *A*, as well as the rest of the world, loses the advantage of specializing in the production of what it is most best at, since many of its scarce resources are compulsorily and inefficiently tied up in the production of commodity *Y*. The law of comparative advantage highlights the important fact that a protective tariff in Country *A* wreaks injury on the efficient industries in that country, and the consumers in that country, as well as on Country *B* and the rest of the world.

Another implication of the law of comparative advantage is that no country or region of the earth is going to be left out of the international division of labour under free trade. For the law means that *even if* a country is in such poor shape that it has no absolute advantage in producing *anything*, it still pays for its trading partners, the people of other countries, to allow it to produce what it is *least worst* at.

In this way, the citizens of every country benefit from international trade. No country is too poor or inefficient to be left out of international trade, and everyone benefits from countries specializing in what they are most best or least bad at – in other words, in whatever they have a comparative advantage.

Until recently, it has been universally believed by historians of economic thought that David Ricardo first set forth the law of comparative advantage in his *Principles of Political Economy* in 1817. Recent researches by Professor

Thweatt, however, have demonstrated, not only that Ricardo did not originate this law, but that he did not understand and had little interest in the law, and that it played virtually no part in his system. Ricardo devoted only a few paragraphs to the law in his *Principles*, the discussion was meagre, and it was unrelated to the rest of his work and to the rest of his discussion of international trade.

The discovery of the law of comparative advantage came considerably earlier. The problem of international trade sprang into public consciousness in Britain when Napoleon imposed his Berlin decrees in 1806, ordering the blockade of his enemy England from all trade with the continent of Europe. Immediately, young William Spence (1783–1860), an English physiocrat and underconsumptionist who detested industry, published his *Britain Independent of Commerce* in 1807, advising Englishmen not to worry about the blockade, since only agriculture was economically important; and if English landlords would only spend all their incomes on consumption all would be well.

Spence's tract caused a storm of controversy, stimulating early works by two noteworthy British economists. One was James Mill, who critically reviewed Spence's work in the *Eclectic Review* for December 1807, and then expanded the article into his book, *Commerce Defended*, the following year. It was in rebuttal of Spence that Mill attacked underconsumptionist fallacies by bringing Say's law to England. The other work was the first book of young Robert Torrens (1780–1864), an Anglo-Irish officer in the Royal Marines, in his *The Economists Refuted* (1808).[14] It has long been held that Torrens first enunciated the law of comparative advantage, and that then, as Schumpeter phrased it, while Torrens 'baptized the theorem', Ricardo 'elaborated it and fought for it victoriously'.[15] It turns out, however, that this standard viewpoint is wrong in both its crucial parts, i.e., Torrens did *not* baptize the law, and Ricardo scarcely elaborated or fought for it. For, first, James Mill had a far better presentation of the law – though scarcely a complete one – in his *Commerce Defended* than did Torrens later the same year. Moreover, in his treatment, Torrens, and not Mill, committed several egregious errors. First, he claimed that trade yields greater benefits to a nation that imports durable goods and necessities as against perishables or luxuries. Second, he claimed also that advantages of home trade are more permanent than those of foreign trade, and also that *all* advantages of domestic trade remain at home, whereas part of the advantages of foreign trade are siphoned off for the benefit of foreigners. And finally, following Smith, and anticipating Marx and Lenin, Torrens asserted that *foreign* trade, by extending the division of labour, creates a surplus over domestic requirements that must then be 'vented' in foreign exports.

Six years later, James Mill led Robert Torrens again in presenting the rudiments of the law of comparative advantage. In the July 1814 issue of the

Eclectic Review, Mill defended free trade against Malthus's support for the Corn Laws in his *Observations*. Mill pointed out that labour at home will, by engaging in foreign trade, procure more by buying imports than by producing all goods themselves. Mill's discussion was largely repeated by Torrens in his *Essay on the External Corn Trade*, published in February of the following year. Furthermore, in this work, Torrens explicitly hailed Mill's essay.

Meanwhile, at the very time when this comparative cost ferment was taking place among his friends and colleagues, David Ricardo displayed no interest whatever in this important line of thought. To be sure, Ricardo weighed in to second his mentor Mill's attack on Malthus's support for the Corn Laws, in his *Essay on ... Profits*, published in February 1815. But Ricardo's line of argument was exclusively 'Ricardian', that is, based solely on the distinctive Ricardian system. In fact, Ricardo displayed no interest in free trade in general, or in the arguments for it; his reasoning was solely devoted to the importance of lowering or abolishing the tariff on corn. This conclusion, as we have noted, was deduced from the distinctive Ricardian system, which was to be fully set forth two years later in his *Principles*. For Ricardo the key to the stifling of economic growth in any country, and especially in developed Britain, was the 'land shortage', the contention that poorer and poorer lands were necessarily being pressed into use in Britain. In consequence, the cost of subsistence kept increasing, and hence the prevailing (which must be the subsistence) money wage kept increasing as well. But this inevitable secular increase of wages must lower profits in agriculture, which in turn brings down all profits. In that way, capital accumulation is increasingly dampened, finally to disappear altogether. Lowering or abolishing the tariff on corn (or other food) was, for Ricardo, an ideal way of postponing the inevitable doom. By importing corn from abroad, diminishing fertility from corn land is deferred. The cost of corn, and therefore of subsistence, will fall sharply, and therefore money wage rates will fall *pari passu*, thereby raising profits and stimulating capital investment and economic growth. There is no hint in any of this discussion of the doctrine of comparative cost or anything like it.

But how about the mature Ricardo, the Ricardo of the *Principles*? Once again, except for the three paragraphs on comparative advantage, Ricardo displays no interest in it, and he instead repeats the Ricardian system argument for repeal of the Corn Laws. Indeed, his discussion in the rest of the chapter on international trade is couched in terms of the Smithian theory of absolute advantage rather than of the comparative advantage found in Torrens and especially in Mill.

The three paragraphs on comparative advantage, furthermore, were not only carelessly worded and confused; they were the only account, brief as they were, that Ricardo would ever write on comparative advantage. Indeed, this was his only mention at any time of this doctrine. Even Ricardo's sudden reference to Portugal and his absurd hypothesis that the Portuguese had an absolute advantage over Britain in the production of cloth, seem to indicate his lack of serious interest in the theory of comparative cost.

Furthermore, Ricardo's views on foreign trade in the *Principles* received almost no comment at that time; writers concentrated on his labour theory of value, and his view that wage rates and profits always move inversely, with the former determining the latter.

If Ricardo had no interest in the theory of comparative advantage, and never wrote about it except in this single passage in the *Principles*, what was it doing in the *Principles* at all? Professor Thweatt's convincing hypothesis is that the law was injected into the *Principles* by Ricardo's mentor James Mill, whom we know wrote the original draft, as well as the revisions, for many parts of Ricardo's *magnum opus*. We know also that Mill prodded Ricardo on including a discussion of comparative cost ratios. As we have seen, Mill originated the doctrine of comparative cost, and led in developing it eight years later. Not only that: while Ricardo dropped the theory as soon as he enunciated it in the *Principles*, Mill fully developed the analysis of comparative advantage further, first in his article on 'Colonies' for the *Encyclopedia Britannica* (1818), and then in his textbook, *The Elements of Political Economy* (1821). Once again, Robert Torrens tailed after Mill, repeating his discussion with no additional insights in 1827, in the fourth edition of his 1815 *Essay on the External Corn Trade*.[16] Meanwhile, George Grote, a devoted Millian disciple, wrote in 1819 an important, unpublished essay setting forth the Millian view on comparative advantage.

And so, once again, James Mill, by the force of his mind as well as his personal charisma, was able to foist an original analysis of his own on to the 'Ricardian system'.[17] It is true that Mill was every bit a fan of the Ricardian system as Ricardo himself; but Mill was a man of far broader scope and erudition than his friend, and was interested in far more aspects of the disciplines of human action. It seems possible that Mill, the inveterate disciple and Number 2 man, was Number 1 man far more often than anyone has suspected.

3.7 Notes

1. William E.C. Thomas, *The Philosophic Radicals: Nine Studies in Theory and Practice 1817–1841* (Oxford: The Clarendon Press, 1979), p. 100.
2. Joseph Hamburger, *Intellectuals in Politics: John Stuart Mill and the Philosophic Radicals* (New Haven: Yale University Press, 1965), p. 44.
3. J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 472–3. Compare Walter Bagehot on Ricardo: 'He dealt with abstractions without knowing they were such: he thoroughly believed that he was dealing with real things. He thought that he was considering actual human nature in its actual circumstances, when he was really considering a fictitious nature in fictitious circumstances. And James Mill,

his instructor on general subjects, had on this point as little true knowledge as he had himself.' Quoted in T.W. Hutchison, 'James Mill and Ricardian Economics: a Methodological Revolution?' in Hutchison, *On Revolutions and Progress in Economic Knowledge* (Cambridge: Cambridge University Press, 1978), p. 57; also see ibid., pp. 26–57.

4. Schumpeter, op. cit., note 3, p. 676n.
5. As Schumpeter points out, Ricardo has been falsely credited with anticipating marginal productivity analysis, particularly since some later marginal productivity theorists, such as J.B. Clark, 'represented their theory as an outgrowth of Ricardo's theory of rent'. Yet they didn't realize that 'they were not generalizing Ricardo's schema but upsetting it'. Schumpeter, op. cit., note 3, pp. 674n, 675–6.
6. Frank W. Fetter, 'The Rise and Decline of Ricardian Economics', *History of Political Economy*, 1 (Spring 1969), p. 73.
7. Schumpeter, op. cit., note 3, p. 653n.
8. Emil Kauder, 'The Retarded Acceptance of the Marginal Utility Theory', *Quarterly Journal of Economics*, 67 (Nov. 1953), p. 574.
9. As St Clair sums up Ricardo's view: landlords, 'though contributing nothing in the way of work or personal sacrifice, will nevertheless receive an ever-increasing portion of the wealth annually created by the community'. Oswald St Clair, *A Key to Ricardo* (New York: A.M. Kelley, 1965), p. 3.
10. Alexander Gray, *The Development of Economic Doctrine* (London: Longmans, Green and Co., 1931), pp. 186–7.
11. Schumpeter, op. cit., note 3, pp. 567–8.
12. Frank H. Knight, 'The Ricardian Theory of Production and Distribution', in *On the History and Method of Economics* (Chicago: University of Chicago Press, 1956), p. 41. Also see ibid., pp. 61–3.
13. Gray, op. cit., note 10, pp. 188–9.
14. Torrens served in the Royal Marines from 1797 to 1834.
15. Schumpeter, op. cit., note 3, p. 607.
16. Torrens, furthermore, was scarcely in a position to take the leadership of the free trade forces, since he had abandoned his previously radical defence of unilateral free trade on behalf of reciprocal trade agreements between countries. As for Mill's fellow leading Ricardian and Scotsman, John Ramsey McCulloch, he stuck to the Smithian line, and publicly repudiated the doctrine of comparative cost.
17. See William O. Thweatt, 'James Mill and the Early Development of Comparative Advantage', *History of Political Economy*, 8 (Summer 1976), pp. 207–34.

4 The decline of the Ricardian system, 1820–48

4.1 The conundrum of Ricardo's popularity

What accounts for the popularity of Ricardo's *Principles*, and for the enduring dominance of the Ricardian system? The marginal utility 'revolutionary', W. Stanley Jevons, writing the preface to the second edition of his great *Theory of Political Economy* in 1879, was forced to complain of the continuing dominance of the Ricardian doctrine, and to lament that 'when at length a true system of Economics comes to be established, it will be seen that that able but wrong-headed man, David Ricardo, shunted the car of Economic science on to a wrong line...'. Indeed. And Ricardo won the day with a theory that was not only far from self-evident but in many ways bizarre (such as the labour theory of value), and he wrote his work in a crabbed and obscurantist style that would hardly be expected to sweep the field, either among laymen or in those more particularly interested in economics.

Part of the explanation, as Schumpeter pointed out, is that Ricardo was politically in tune with the *Zeitgeist*. Even though his methodology was so abstract as to be divorced from and to falsify reality, Ricardo's motivation was not abstract theory but its use in advancing politico-economic conclusions. Ricardo, like Mill, was devoted to free trade and *laissez-faire*, and, as we shall see, to hard money, and he applied his abstract system like a hammer in their service. This ideology was fast becoming the wave of the future in England, in the circles of businessmen and intellectuals.[1]

But what of Ricardo's abysmal writing, in style and in organization? Alexander Gray's heartfelt critique is on the mark:

> As to the form rather than the substance of Ricardo's writings, it is perhaps sufficient to say that he was no writer. He himself dimly realized that he was a bad writer, but it is doubtful whether he can have known the whole truth. It is undiscerning flattery to regard his chief work, *The Principles of Political Economy and Taxation*, as a book at all. Rather does it suggest the sweepings of a busy man's study – chapters of very varying length, which he clearly found it difficult to arrange in the right order, brusque notes and memoranda on points which interested the author. In defence, it may be admitted that Ricardo ... did not mean to write a book. These were indeed memoranda written for himself and his friends, published on his friends' [actually Mill's] incitement. But this is a poor consolation to the lonely traveller befogged in the Ricardian jungle.[2]

It is very possible, however, that it was precisely Ricardo's obscurantism that accounted for his success. For all too many people, laymen and professionals alike, obscurity and bad writing equal profundity. If they can't understand it, and they hear at every hand that so-and-so is a great man and his theories the current light, their belief in his profundity will be redoubled.[3,4] There are great charms to obscurity. Moreover, there are particular charms for the adepts who cluster around the great man, the circle of initiates who claim – probably correctly – that only *they* can truly understand his work.