
3 James Mill, Ricardo, and the Ricardian system

3.1	James Mill, the radicals' Lenin	71
3.2	Mill and libertarian class analysis	75
3.3	Mill and the Ricardian system	78
3.4	Ricardo and the Ricardian system, I: macro-income distribution	81
3.5	Ricardo and the Ricardian system, II: the theory of value	88
3.6	The law of comparative advantage	94
3.7	Notes	98

3.1 James Mill, the radicals' Lenin

James Mill (1771–1836) was surely one of the most fascinating figures in the history of economic thought. And yet he is among the most neglected. Mill was perhaps one of the first persons in modern times who might be considered a true 'cadre man', someone who in the Leninist movement of the next century would have been hailed as a 'real Bolshevik'. Indeed, he was the Lenin of the radicals, creating and forging philosophical radical theory and the entire philosophical radical movement. A brilliant and creative but an insistently Number 2 man, Mill began as a Lenin seeking his Marx. In fact, he simultaneously found two 'Marxes', Jeremy Bentham and David Ricardo. He met both at about the same time, at the age of 35, Bentham in 1808 and Ricardo around the same date. Bentham became Mill's philosophic Marx, from whom Mill acquired his utilitarian philosophy and passed it on to Ricardo and to economics generally. But it has been largely overlooked that Mill functioned creatively in his relationship with Bentham, persuading the older man, formerly a Tory, that Benthamite utilitarianism implied a political system of radical democracy. David Ricardo (1772–1823) was an unsophisticated, young, but retired wealthy stockbroker (actually bond dealer) with a keen interest in monetary matters; but Mill perceived and developed Ricardo as his 'Marx' in economics.

Until he acquired his post at the East India Company in 1818, at the age of 45, Mill, an impoverished Scottish emigré and freelance writer in London, lived partially off Bentham, and managed to keep on good enough formal terms with his patron despite their severe personality conflicts. An inveterate organizer of others as well as himself, Mill tried desperately to channel Bentham's prolific but random scribblings into a coherent pattern. Bentham meanwhile wrote privately to friends complaining of the impertinent interference of this young whippersnapper. Mill's publication of his massive *History of India* in 1818 won him immediate employment to an important post at the East India Company, where he rose to the head of the office in 1830 and continued there until his death.

As for David Ricardo, self-taught and diffident, he scarcely acted as a Great Man. To the contrary, his admiration for Mill, his intellectual mentor and partly his mentor in economic theory, allowed him to be moulded and dominated by Mill. And so Mill happily hectored, cajoled, prodded and bullied his good friend into becoming the 'Marx', the great economist, that Mill felt for whatever reason he himself could or should not be. He pestered Ricardo into writing and finishing his masterpiece, *The Principles of Political Economy and Taxation* (1817), and then into entering Parliament to take an active political role as leader of the radicals. Mill was then delighted to become the leading and highly devoted Ricardian in economics.

As a 'Lenin' then, James Mill had a far more active intellectual role than the real Lenin would ever enjoy. Not only did he integrate the work of two

'Marx'; he contributed substantially to the system itself. Indeed, in endless conversations Mill instructed Ricardo on all manner of topics, and Mill looked over, edited, and undoubtedly added to many drafts of Ricardo's *Principles*. We have already seen, for example, that it was Mill who first absorbed and adopted Say's law and passed it on to his pupil Ricardo. Recent researches indicate that James Mill may have played a far more leading role in developing Ricardo's *magnum opus* than has been believed – for example, in arriving at and adopting the law of comparative advantage.

Mill's stance is surely unique in the history of social thought. Very often theorists and writers are anxious to proclaim their alleged originality to the skies (Adam Smith being an aggravated though not untypical case). But what other instance is there of a man far more original or creative than he liked to claim; how many others have insisted on appearing to be a mere Number 2 man when in many ways they were Number 1? It is possible, it should be noted, that the explanation for this curious fact is simple and materio-economic rather than depth-psychological. Mill, son of a Scottish shoemaker, was an impoverished Scot without steady employment trying to make his way and raise a family in London.. Bentham was a wealthy aristocrat who functioned as Mill's patron; Ricardo was a wealthy retired stockbroker. It is certainly possible that Mill's posture as devoted disciple was a function of a poor man keeping his wealthy mentor-disciples happy as well as maximizing the public's reception for their common doctrines.

As a pre-eminent cadre man, Mill possessed all the strengths and weaknesses of that modern type. Humourless, eternally the didact, but charismatic and filled with prodigious energy and determination, Mill found enough time to carry on an important full-time job at the East India House, while yet functioning as a committed scholar-activist on many levels. As a scholar and writer, Mill was thorough and lucid, committed strongly to a few broad and overriding axioms: utilitarianism, democracy, *laissez-faire*. On a scholarly level, he wrote important tomes on the history of British India, on economics, on political science, and on empiricist psychology. He also wrote numerous scholarly reviews and articles. But strongly committed, as Marx would be, to changing the world as well as understanding it, Mill also wrote countless newspaper articles and strategic and tactical essays, as well as tirelessly organizing the philosophic radicals, and manoeuvring in Parliament and in political life. With all that, he had the energy to preach and instruct everyone around him, including his famous and failed attempt to brainwash his young son John. But it must be noted that Mill's fierce and fervent education of John was not simply the crotchet of a Victorian father and intellectual; the education of John Stuart was designed to prepare him for the presumptively vital and world-historical role of James's successor as leader of the radical cadre, as the new Lenin. There was a method in the madness.

James Mill's evangelical Calvinist spirit was tailor-made for his lifelong cadre role. Mill was trained in Scotland to be a Presbyterian preacher. During his days as a literary man in London he lost his Christian faith and became an atheist, but, as in the case of so many later evangelically trained atheist and agnostic intellectuals, he retained the grim, puritanical and crusading habit of mind of the prototypical Calvinist firebrand. As Professor Thomas perceptively writes:

This is why Mill, a sceptic in later life, always got on well with (Protestant) dissenters [from the Anglican Church] ... He may have come to reject belief in God, but some form of evangelical zeal remained essential to him. Scepticism in the sense of non-commitment, indecision between one belief and another, horrified him. Perhaps this accounts for his long-standing dislike of Hume. Before he lost his faith, he condemned Hume for his infidelity; but even when he had come to share that infidelity, he continued to undervalue him. A placid scepticism which seemed to uphold the *status quo* was not an attitude of mind Mill understood.¹

Or perhaps Mill understood Hume all too well, and therefore reviled him.

Mill's Calvinism was evident in his conviction that reason must keep stern control over the passions – a conviction which hardly fitted well with Benthamite hedonism. Cadre men are notorious puritans, and Mill puritanically disliked and distrusted drama or art. The actor, he charged, was 'the slave of the most irregular appetites and passions of his species', and Mill was hardly the one to delight in sensuous beauty for its own sake. Painting and sculpture Mill scorned as the lowest of the arts, only there to gratify a frivolous love of ostentation. Since Mill, in a typically Benthamite utilitarian manner, believed that human action is only 'rational' if done in a prudent, calculating manner, he demonstrated in his *History of British India* a complete inability to understand anyone motivated by mystical religious asceticism or by a drive for military glory or self-sacrifice.

If Emil Kauder is right, and Scottish Calvinism accounts for Smith's introduction of the labour theory of value into economics, then Scottish Calvinism even more accounts for James Mill's forceful and determined crusade for the labour theory of value and perhaps for its playing a central role in the Ricardian system. It also might explain the devoted adherence to the labour theory by Mill's fellow Scot and student of Dugald Stewart, John R. McCulloch.

A prime, and particularly successful example of Mill the cadre man at work was his role in driving through Parliament the great Reform Bill of 1832. The centrepiece of Mill's political theory was his devotion to democracy and universal suffrage; but he was sensibly willing to settle, temporarily, for the Reform Bill, which decisively expanded British suffrage from an aristocratic and gerrymandered to a large middle-class base. Mill was the

behind-the-scenes 'Lenin' and master manipulator of the drive for the Reform Bill. His strategy was to play on the fear of the timorous and centrist Whig government that the masses would erupt in violent revolution if the bill were not passed. Mill and his radicals knew full well that no such revolution was in the offing; but Mill, through friends and allies placed strategically in the press, was able to orchestrate a deliberate campaign of press deception that fooled and panicked the Whigs into passing the bill. The campaign of lies was engaged in by important sectors of the press: by the *Examiner*, a leading weekly owned and edited by the Benthamite radical Albany Fonblanque; by the widely read *Morning Chronicle*, a Whig daily edited by Mill's old friend John Black, who made the paper a vehicle for the utilitarian radicals; and by the *Spectator*, edited by the Benthamite S. Rintoul. The *Times* was also friendly to the radicals at this point, and the leading Birmingham radical, Joseph Parkes, was owner and editor of the *Birmingham Journal*. Not only that; Parkes was able to have his mendacious stories on the allegedly revolutionary public opinion of Birmingham printed as factual reports in the *Morning Chronicle* and the *Times*. So well did Mill accomplish his task that most later historians have been taken in as well.

Ever the unifier of theory and praxis, James Mill paved the way for this organized campaign of deception by writing in justification of lying for a worthy end. While truth was important, Mill conceded, there are special circumstances 'in which another man is not entitled to the truth'. Men, he wrote, should not be told the truth 'when they make bad use of it'. Ever the utilitarian! Of course, as usual, it was the utilitarian who was to decide whether the other man's use was going to be 'good' or 'bad'.

Mill then escalated his defence of lying in politics. In politics, he claimed, disseminating 'wrong information' (or, as we would now say, 'disinformation') is 'not a breach of morality, but on the contrary a meritorious act ... when it is conducive to the prevention of misrule. In no instance is any man less entitled to right information, than when he would employ it for the perpetuation of misrule'.

A decade and a half later, John Arthur Roebuck, one of Mill's top aides in the campaign, and later a radical MP and historian of the drive for reform, admitted that

to attain our end, much was said that no one really believed; much was done that no one would like to own ... often, when there was no danger, the cry of alarm was raised to keep the House of Lords and the aristocracy generally in what was termed a state of wholesome terror.

In contrast to the 'noisy orators who appeared important' in the campaign, Roebuck recalled, were the 'cool-headed, retiring, sagacious determined men ... who pulled the strings in this strange puppet-show'. 'One or two ruling

minds, to the public unknown', manipulated and stage-managed the entire movement. They 'use[d] the others as their instruments ...'. And the most cool-headed, sagacious and determined was the master puppeteer of them all, James Mill.

Although he worked as a high official for the East India Company and could not run for parliament himself, James Mill was the unquestioned cadre leader of the group of 10–20 philosophic radicals who enjoyed a brief day in the sun in Parliament during the 1830s. Mill continued to be their leader until he died in 1836, and then the others attempted to continue in his spirit. While the philosophic radicals proclaimed themselves Benthamites, the aging Bentham had little to do personally with this Millian group. Most of the parliamentary philosophic radicals had been converted personally by Mill, beginning with Ricardo over a decade earlier, and also including his son John Stuart, who for a while succeeded his father as radical leader. Mill, along with Ricardo, also converted the official leader of the radicals in Parliament, the banker and later classical historian George Grote (1794–1871). Grote, a self-educated and humourless man, soon became an abject tool of James Mill, whom he greatly admired as 'a very profound thinking man'. As Mill's most faithful disciple, Grote, in the words of Professor Joseph Hamburger, was 'so inoculated, as it were' that for him all of Mill's dicta 'assumed the force and sanction of duties'.

The Millian circle also had a fiery cadre lady, Mrs Harriet Lewin Grote (1792–1873), an imperious and assertive militant whose home became the salon and social centre for the parliamentary radicals. She was widely known as 'the Queen of the Radicals', of whom Cobden wrote that 'had she been a man, she would have been the leader of a party'. Harriet testified to Mill's eloquence and charismatic effect on his young disciples, most of whom were brought into the Millian circle by his son, John Stuart. A typical testimony was that of William Ellis, a young friend of John, who wrote in later years of his experience of James Mill: 'He worked a complete change in me. He taught me how to think and what to live for.'

3.2 Mill and libertarian class analysis

The theory of class conflict as a key to political history did not begin with Karl Marx. It began, as we shall see further below, with two leading French libertarians inspired by J.B. Say, Charles Comte (Say's son-in-law), and Charles Dunoyer, in the 1810s after the restoration of the Bourbon monarchy. In contrast to the later Marxist degeneration of class theory, the Comte–Dunoyer view held the inherent class struggle to focus on *which classes* managed to gain control of the state apparatus. The *ruling* class is whichever group has managed to seize state power; the *ruled* are those groups who are taxed and regulated by those in command. Class interest, then, is defined as a

group's relation to the state. State rule, with its taxation and exercise of power, controls, and conferring of subsidies and privileges, is the instrument that creates conflicts between the rulers and the ruled. What we have, then, is a 'two-class' theory of class conflict, based on whether a group rules or is ruled by the state. On the free market, on the other hand, there is no class conflict, but a harmony of interest between all individuals in society cooperating in and through production and exchange.

James Mill developed a similar theory in the 1820s and 1830s. It is not known whether he arrived at it independently or was influenced by the French libertarians; it is clear, however, that Mill's analysis was devoid of the rich applications to the history of western Europe that Comte, Dunoyer, and their young associate, the historian Augustin Thierry, had worked out. All government, Mill pointed out, was run by the ruling class, the few who dominated and exploited the ruled, the many. Since all groups tend to act for their selfish interests, he noted, it is absurd to expect the ruling clique to act altruistically for the 'public good'. Like everyone else, they will use their opportunities for their own gain, which means to loot the many, and to favour their own or allied special interests as against those of the public. Hence Mill's habitual use of the term 'sinister' interests as against the good of the public. For Mill and the radicals, we should note, the public good meant specifically *laissez-faire*—government confined to the minimal functions of police, defence and the administration of justice.

Hence Mill, the pre-eminent political theorist of the radicals, harked back to the libertarian Commonwealthmen of the eighteenth century in stressing the need always to treat government with suspicion and to provide checks to suppress state power. Mill agreed with Bentham that 'If not deterred, a ruling elite would be predatory'. The pursuit of sinister interests leads to endemic 'corruption' in politics, to sinecures, bureaucratic 'places' and subsidies. Mill lamented: 'Think of the end [of government] as it really is, in its own nature. Think next of the facility of the means – justice, police, and security from foreign invaders. And then think of the oppression practised upon the people of England under the pretext of providing them.'

Never has libertarian ruling-class theory been put more clearly or forcefully than in the words of Mill: there are two classes, Mill declared, 'The first class, those who plunder, are the small number. They are the ruling Few. The second class, those who are plundered, are the great number. They are the subject Many'. Or, as Professor Hamburger summed up Mill's position: 'Politics was a struggle between two classes – the avaricious rulers and their intended victims.'²

The great conundrum of government, concluded Mill, was how to eliminate this plunder: to take away the power 'by which the class that plunder succeed in carrying on their vocation, has ever been the great problem of government'.

The 'subject Many' Mill accurately termed 'the people', and it was probably Mill who inaugurated the type of analysis that pits 'the people' as a ruled class in opposition to the 'special interests'. How, then, is the power of the ruling class to be curbed? Mill thought he saw the answer: 'The people must appoint watchmen. Who are to watch the watchmen? The people themselves. There is no other resource; and without this ultimate safeguard, the ruling Few will be forever the scourge and oppression of the subject Many.'

But how are the people themselves to be the watchmen? To this ancient problem Mill provided what is by now a standard answer in the western world, but still not very satisfactory: by all the people electing representatives to do the watching.

Unlike the French libertarian analysts, James Mill was not interested in the history and development of state power; he was interested only in the here and now. And in the here and now of the England of his day, the ruling Few were the aristocracy, who ruled by means of a highly limited suffrage and controlled 'rotten boroughs' picking representatives to Parliament. The English aristocracy was the ruling class; the government of England, Mill charged, was 'an aristocratical engine, wielded by the aristocracy for their own benefit'. Mill's son and ardent disciple (at that time), John Stuart, argued in a Millian manner in debating societies in London that England did *not* enjoy a 'mixed government', since a great majority of the House of Lords was chosen by '200 families'. These few aristocratic families 'therefore possess absolute control over the government ... and if a government controlled by 200 families is not an aristocracy, then such a thing as an aristocracy cannot be said to exist'. And since such a government is controlled and run by a few, it is therefore 'conducted wholly for the benefit of a few'.

It is this analysis that led James Mill to place at the centre of his formidable political activity the attainment of radical democracy, the universal suffrage of the people in frequent elections by secret ballot. This was Mill's long-run goal, although he was willing to settle temporarily – in what the Marxists would later call a 'transition demand' – for the Reform Bill of 1832, which greatly widened the suffrage to the middle class. To Mill, the extension of democracy was more important than *laissez-faire*, for to Mill the *process* of dethroning the aristocratic class was more fundamental, since *laissez-faire* was one of the happy consequences expected to flow from the replacement of aristocracy by the rule of all the people. (In the modern American context, Mill's position would aptly be called 'right-wing populism'.) Placing democracy as their central demand led the Millian radicals in the 1840s to stumble and lose political significance by refusing to ally themselves with the Anti-Corn Law League, despite their agreement with its free trade and *laissez-faire*. For the Millians felt that free trade was too much of a middle-class movement and detracted from an overriding concentration on democratic reform.

Granted that the people would displace aristocratic rule, did Mill have any reason for thinking that the people would then exert their will on behalf of *laissez-faire*? Yes, and here his reasoning was ingenious: while the ruling class had the fruits of their exploitative rule in common, the people were a different kind of class: their only interest in common was getting rid of the rule of special privilege. Apart from that, the mass of the people have no common class interest that they could ever actively pursue by means of the state. Furthermore, this interest in eliminating special privilege is the common interest of all, and is therefore the 'public interest' as opposed to the special or sinister interests of the few. The interest of the people coincides with universal interest and with *laissez-faire* and liberty for all.

But how then explain that no one can claim that the masses have always championed *laissez-faire*? – and that the masses have all too often loyally supported the exploitative rule of the few? Clearly, because the people, in this complex field of government and public policy, have suffered from what the Marxists would later call 'false consciousness', an ignorance of where their interests truly lie. It was then up to the intellectual vanguard, to Mill and his philosophic radicals, to educate and organize the masses so that their consciousness would become correct and they would then exert their irresistible strength to bring about their own democratic rule and install *laissez-faire*. Even if we can accept this general argument, the Millian radicals were unfortunately highly over-optimistic about the time span for such consciousness-raising, and political setbacks in the early 1840s led to their disillusionment in radical politics and to the rapid disintegration of the radical movement. Curiously enough, their leaders, such as John Stuart Mill and George and Harriet Grote, while proclaiming their weary abandonment of political action or political enthusiasm, in reality gravitated with astonishing rapidity toward the cosy Whig centre that they had formerly scorned. Their proclaimed loss of interest in politics was in reality a mask for loss of interest in radical politics.

3.3 Mill and the Ricardian system

Much has been recently revealed about James Mill's formative and shaping role over his friend Ricardo's system. How much of Ricardianism is really Mill's creation? Apparently a great deal. One thing is certain: it was Mill who took from J.B. Say the great Say's law and converted Ricardo to that stand. Mill had developed Say's law in his important early book, *Commerce Defended* (1808), written shortly before he met Ricardo. Ricardo faithfully followed Say's law, and, while in Parliament, consistently opposed expenditure on public works during the depressed year of 1819. And we have seen that Mill and Ricardo together managed to kill the publication of Bentham's 'pre-Keynesian' *True Alarm* in 1811.

In expounding Say's law, Mill was carrying on and developing the important Turgot–Smith insights on saving and investment. But most of the rest of Mill's economic legacy was a disaster. Much of it was the heart and soul of the Ricardian system. Thus, in a forgotten early work, *The Impolicy of a Bounty on the Exportation of Grain* (1804), Mill sets forth the essence of Ricardianism, from the actual content, to the characteristic disastrous methodology of brutal and unrealistic oversimplification, and to a holistic concentration of unsound macro-aggregates unrelated to the actions of the individual, whether consumer or businessman, in the real world. Mill churns out chunks of alleged interrelations between these macro-aggregates, all *seeming* to be about the real world, but actually relevant only to deeply fallacious assumptions about the never-never land of long-run equilibrium. The methodology is essentially 'verbal mathematics', since the statements are only the implicit churning out of what are really mathematical relations but are never admitted as such. The use of the vernacular language adds a patina of pretend realism that mathematics can never convey. An open use of mathematics might at least have revealed the fallacious assumptions of the model.

Ricardo's exclusive concern with long-run equilibria may be seen from his own declaration of method: 'I put those immediate and temporary effects quite aside, and fixed my whole attention on the permanent state of things which will result from them.'

Unrealistic oversimplification compounded upon itself is the 'Ricardian Vice'. Both the Ricardian and the Say–Austrian methodology have been termed 'deductive', but they are really poles apart. The Austrian methodology ('praxeology') sticks close in its axioms to universally realistic common insights into the essence of human action, and deduces truths only from such evidently true propositions or axioms. The Ricardian methodology introduces numerous false assumptions, compounded and multiplied, into the initial axioms, so that deductions made from these assumptions – whether verbal in the case of Ricardo or mathematical in the case of the modern Walrasians or a blend of both as in the Keynesians – are all necessarily false, useless and misleading.

Thus, in his essay on a bounty on grain, James Mill introduces the typically 'Ricardian' error of melding all agricultural commodities into one, 'corn' (wheat), and claiming corn to be *the* basic commodity. With corn now adopted as a surrogate for all food, Mill makes the sweeping statement that the most scientific principle of political economy is 'that the money price of corn, regulates the money price of everything else'. Why? Here, Mill introduces a typically and brutally drastic variant of Malthusianism. Not just that there is a long-run *tendency* for population to press on the means of subsistence so that wage rates are pushed down to the cost of subsistence. But more, in a typically Ricardian confusion of the non-existent long-run equilibrium

with constant, everyday reality, that wage rates are always set by the price of corn (a surrogate for food, or subsistence, in general). Mill lays down the proposition that wage rates are always set directly by the price of corn as 'so obviously necessary, that we need spend no more time proving it'. That takes care of *that!* He concludes therefore that the wage rate is 'entirely regulated by the money price of corn'.

Mill's extreme version of Malthusianism can be seen in his statement that 'no one ... will hesitate to allow ... that the tendency of the species to multiply is much greater than the rapidity with which there is any chance that the fruits of the earth will be multiplied'. Mill even goes so far in wild extremes as to say that 'raise corn as fast as you please, mouths are producing still faster to eat it. Population is invariably pressing close upon the heels of subsistence; and in whatever quantity food be produced, a demand will always be produced greater than the supply'.

Another unfortunate notion contributed to Ricardo by Mill in his 1804 essay is an overriding focus on the behaviour of a few aggregate macro-shares. Labour was assumed to be of uniform quality; therefore, all 'wages' were pushed down to subsistence level by the price of corn. There are only three macro-distributive shares: 'wages', 'profits' and 'rents' in the Ricardian scheme. There is no discussion whatever of *individual* prices or wage rates – the proper concern of economic analysis – and no hint of the existence of or the need for the entrepreneur. Say's brilliant analysis of the entrepreneur's central role is completely forgotten; there is no role for a risk-bearing entrepreneur if all is frozen into a few aggregative chunks in long-run equilibrium, where change is slow or non-existent, and knowledge is perfect rather than uncertain. 'Profits', therefore, are the net returns aggregatively received by capitalists, which could well be called 'interest' or 'long-run profits'.

If wages, profits and rents exhaust the product, then, tautologically and virtually by definition, if one of the three increases, and the *total is frozen*, one or both of the other shares must fall. Hence, the implicit Ricardian assumption of inherent class conflict between the receivers of the three blocs of distributive shares. In the Mill-Ricardian system, wages are fixed by the price of corn, or the cost of food. The cost of food, for its part, is always increasing because of the fixed supply of land and the alleged Malthusian necessity to move to ever less productive land as the population increases and presses on the food supply. Thus: rents are always slowly but inexorably increasing, and money wage rates are always rising in order to maintain the real wage at subsistence level. Therefore – hey presto! – aggregate 'profits' must always be falling.

Schumpeter's blistering critique of the Ricardian system is highly perceptive and perfectly apt:

...he [Ricardo] cut that general system [of economic interdependence in the market] to pieces, bundled up as large parts of it as possible in cold storage – so that as many things as possible should be frozen and ‘given’. He then piled one simplifying assumption upon another until, having really settled everything by these assumptions, he was left with only a few aggregative variables between which, given these assumptions, he set up simple one-way relations so that, in the end, the desired results emerged almost as tautologies. For example, a famous Ricardian theory is that profits ‘depend upon’ the price of wheat. And upon his implicit assumptions, and in the particular sense in which the terms of the proposition are to be understood, that is not only true, but undeniably, in fact trivially, so. Profits could not possibly depend upon anything else, since everything else is ‘given’, that is, frozen. It is an excellent theory that can never be refuted and lacks nothing save sense.³

3.4 Ricardo and the Ricardian system, I: macro-income distribution

While much of the Ricardian system turns out to be the creation of James Mill, perhaps most of it was due to Ricardo himself, who of course must, in any case, bear major responsibility for his own work. To continue the Marxian metaphor, in many ways the Mill–Ricardo relationship might be more of a Marx–Engels than a Lenin–Marx connection.

Ricardo was born in London into a prosperous family of Spanish–Portuguese Jews who had settled in Holland after having been expelled from Spain at the end of the fifteenth century. Ricardo’s father had moved to London, where he prospered as a stockbroker, and had 17 children, of whom David was the third. At the age of 11, David was sent by his father to Amsterdam, to attend Orthodox Hebrew school for two years. At the age of 14, with only an elementary education, Ricardo began his business career, employed by his father’s ‘stockbroker’ house. It must be emphasized that, with the exception of the quasi-governmental Bank of England, there were no corporations or corporate stocks in that era. Government bonds were then called ‘stocks’, and so ‘stockbrokers’ were what would now be called government bond dealers.

Seven years later, however, David married a Quaker girl, and left the Jewish faith, whereupon he was disowned by his parents. Eventually, he became a confirmed Quaker. A London bank, already impressed with young Ricardo, lent him enough money to set himself up in his own business as a stockbroker. Within a few years, Ricardo made an enormous amount of money in the bond business, until he was ready to retire to the country in his early 40s. In 1799, at the age of 27, Ricardo, bored while whiling away time at a health resort, chanced upon a copy of *The Wealth of Nations*, and devoured it, becoming, like so many others of that era, a dedicated Smithian.

As Schumpeter points out, Ricardo’s *Principles* can only be understood as a dialogue with, and reaction to, *The Wealth of Nations*. Ricardo’s logical bent was offended at the basic confusion of mind, the chaos that J.B. Say also saw in the Smithian canon, and he, like Say before him, set out to

clarify the Smithian system. Unfortunately, and in deep contrast to Say, Ricardo simplified by taking all the most egregious errors in Smith, throwing out all qualifications and contradictions, then building his system upon what was left. The worst of Smith was magnified and intensified. In his basic method, all of Smith's historical and empirical points were tossed out. This was not bad in itself, but it left a deductive system built on deep fallacy and incorrect macro-models. In addition, while Ricardo's theoretical system might have been brutally oversimplified in relation to Smith, his writing style was inordinately crabbed and obtuse. The methodology of verbal mathematics is almost bound to be difficult and obscurantist, with blocks of words spelling out equilibrium mathematical relations in a highly cumbersome manner. But on top of that, Ricardo, in contrast to his mentor Mill, was undoubtedly one of the worst and most turgid literary stylists in the history of economic thought.

In contrast to Adam Smith, for whom the output, or wealth, of nations was of supreme importance, Ricardo neglected total output to place overriding emphasis on the alleged distribution of a given product into macro-classes. Specifically, into the three macro-classes of landlords, labourers and capitalists. Thus, in a letter to Malthus, who on this question at least was an orthodox Smithian, Ricardo made the distinction clear: 'Political economy, you think, is an enquiry into the nature and causes of wealth; I think it should rather be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation.'

Since entrepreneurship could not exist in Ricardo's world of long-run equilibrium, he was left with the classical triad of factors. His analysis was strictly holistic, in terms of allegedly homogeneous but actually varied and diverse classes. Ricardo avoided any Say-type emphasis on the individual, whether he be the consumer, worker, producer or businessman.

In Ricardo's world of verbal mathematics there were, as Schumpeter has astutely pointed out, four variables: total output or income, and shares of income to landlords, capitalists, and workers, i.e. rent, profits (long-run interest) and wages. Ricardo was stuck with a hopeless problem: he had four variables, but only one equation with which to solve them:

$$\text{Total output (or income)} = \text{rent} + \text{profits} + \text{wages}$$

To solve, or rather pretend to solve, this equation, Ricardo had to 'determine' one or more of these entities from outside his equation, and in such a way as to leave others as residuals. He began by neglecting total output, i.e. by assuming it to be a *given*, thereby 'determining' output by freezing it on his own arbitrary assumptions. This procedure enabled him to get rid of one variable – to his own satisfaction.

Next, on to wages. Here, Ricardo took from Mill the hard-core, or ultra-Malthusian, view that 'wages' – all wages – are always and everywhere pressing on the food supply to such an extent that they are always set, and determined, precisely at the level of the cost of subsistence. Labour is assumed to be homogeneous and of equal quality, so that all wages can be assumed to be at subsistence cost. While briefly and dimly acknowledging that labour can have different qualities or grades, Ricardo, like Marx after him, drastically assumed away the problem by blithely postulating that they can all be incorporated into a weighted quantity of 'labour hours'. As a result, Ricardo could maintain that wage rates were uniform throughout the economy. In the meanwhile, as we have seen, food, or subsistence generally, was assumed to be incorporated into one commodity, 'corn', so that the price of corn can serve as a surrogate for subsistence cost in general.

Given these heroic and fallacious assumptions, then, 'the' wage rate is determined instantly and totally by the price of corn, since the wage rate can neither rise above the subsistence level (as determined by the price of corn) nor sink below it.

The price of corn, in its turn, is determined according to Ricardo's famous theory of rent. Rent served as the linchpin of the Ricardian system. For, according to Ricardo's rather bizarre theory, *only* land differed in quality. Labour, as we have seen, was assumed to be uniform, and therefore wage rates are uniform, and, as we shall see, profits are also assumed to be uniform because of the crucial postulate of the economy's always being in long-run equilibrium. Land is the only factor which miraculously is allowed to differ in quality. Next, Ricardo assumes away any discovery of new lands or improvements in agricultural productivity. His theory of history therefore concludes that people always begin by cultivating the most fertile lands, and, as population increases, the Malthusian pressure on the food supply forces the producers to use ever more inferior lands. In short, as population and food production rise, the cost of growing corn must inexorably rise over time.

Rent, in Ricardo's phrase, is payment for the 'use of the original and indestructible powers of the soil'. This hints at a productivity theory, and indeed Ricardo did see that more fertile and productive lands earned a higher rent. But unfortunately, as Schumpeter put it, Ricardo then 'embarks upon his detour'. In the first place, Ricardo made the assumption that at any moment the poorest land in cultivation yields a zero rent. He concluded from that alleged fact that a given piece of land earns rent not because of *its own* productivity, but merely because its productivity is greater than the poorest, zero-rent, land under cultivation. Remember that, for Ricardo, labour is homogeneous and hence wages uniform and equal, and, as we shall see, profits are also uniform and equal. Land is unique in its permanent, long-run structure of differential fertility and productivity. Hence, to Ricardo, rent is *purely* a

differential, and Land A earns rent solely because of its differential productivity compared to Land B, the zero-rent land in cultivation.

To Ricardo, several important points followed from these assumptions. First, as population inexorably increases, and poorer and poorer lands are used, *all the differentials keep increasing*. Thus, say that, at one point of time, corn lands (which sums up all land) range in productivity from the highest, Land A, through a spectrum down to Land J, which, being marginal, earns a zero rent. But now population increases and farmers have to cultivate more and poorer lands, say K, L, and M. M now becomes the zero-rent land, and Land J now earns a positive rent, equal to the differential between *its* productivity and that of M. And all the previous infra-marginal lands have their differential rents raised as well. It becomes ineluctably true, therefore, that over time, as population increases, rents, and the proportion of income going to rent, increase as well.

Yet, though rent keeps increasing, *at the margin* it always remains zero, and, as Ricardo put it in a crucial part of his theory, being zero rent *does not enter into cost*.

Put another way: quantity of labour cost, being allegedly homogeneous, is uniform for each product, and profits, being uniform and fairly small throughout the economy, form a part of cost that can be basically neglected. Since the price of every product is uniform, this means that the quantity of labour cost on the highest-cost, or zero-rent, land, uniquely determines the price of corn and of every other agricultural product. Rent, being infra-marginal in Ricardo's assumptions, cannot enter into cost. Total rental income is a passive residual determined by selling prices and total income, and selling prices are determined by quantity of labour cost and (to a small extent) the uniform rate of profit. And since the quantity of labour needed to produce corn keeps rising as more and more inferior lands are put into production, this means that the cost of producing corn and hence the price of corn keep rising over time. And, paradoxically, while rent keeps rising over time, it remains zero at the margin, and therefore without any impact on costs.

There are many flaws in this doctrine. In the first place, even the poorest land in cultivation never earns a zero rent, just as the least productive piece of machinery or worker never earns a zero price or wage. It does not benefit any resource owner to keep his resource or factor in production unless it earns a positive rent. The marginal land, or other resource, will indeed earn less of a rent than more productive factors, but even the marginal land will always earn *some* positive rent, however small.

Second, apart from the zero-rent problem, it is simply wrong to think that rent, or any other factor return, is *caused* by differentials. Each piece of land, or unit of any factor, earns whatever *it* produces; differentials are simple arithmetic subtractions between two lands, or other factors, *each of which*

earns a positive rent of its own. The assumption of zero rent at the margin allows Ricardo to obscure the fact that *every* piece of land earns a productive rent, and allows him to slip into the differential *as cause*.

We might just as well turn Ricardo on his head and apply the differential theory to wages, and say, with Schumpeter, that 'one pays more for good than for bad land exactly as one pays more for a good than a bad workman'.⁴

Third, in discussing the rise in cost of producing corn, Ricardo reverses cause and effect. Ricardo states that increasing population 'obliges' farmers to work land of inferior quality and *then* causes a rise in its price. But as any utility theory analyst would realize, the causal chain is precisely the reverse: when the *demand* for corn increases, its price would rise, and the higher price would lead farmers to grow corn on higher-cost land. But this realization, of course, eliminates the Ricardian theory of value and with it the entire Ricardian system.

And fourth, as numerous critics have pointed out, it is certainly not true historically that people always start using the highest-quality land and then sink gradually and inevitably down to more and more inferior land. Historically, there have always been advances, and enormous ones, in the productivity of agriculture, in the discovery and creation of new lands, and in the discovery and application of new and more productive agricultural techniques and types of products. Defenders of Ricardo counter that this is a purely historical argument, ignoring the logical beauty of the Ricardian theory. But the whole point is that Ricardo was, after all, advancing a *historical* theory, a law of history, and he certainly claimed historical accuracy for past and future predictions for his theory. And yet it is all a purely arbitrary, and hence largely untrue, assumption of his logical doctrine in the guise of a theory of history. Ricardo's basic problem throughout was making cavalier and untrue historical or empirical generalizations the building blocks of his logical system, from which he drew self-confident and seemingly apodictically true empirical and political conclusions. Yet from false assumptions only false conclusions can be drawn, regardless how imposing the logical structure may or may not be.

Ricardo's differential rent theory has been widely hailed as the precursor of the neoclassical law of diminishing returns, which the neoclassicals were supposed to have generalized from land to all factors of production. But this is wrong, since the law of diminishing returns applies to increasing doses of a factor to *homogeneous* units of other, logically fixed, factors – in this case land. But the whole point of Ricardo's differential rent theory is that his areas of land are not homogeneous at all, but varying in a spectrum from superiority to inferiority. Therefore the law of diminishing returns – as grasped by Turgot and rediscovered by the neoclassicals – simply does not apply.⁵

Rent, though increasing, is then effectively zero and not part of expenses or costs. Rent is disposed of in the Ricardian equation. But we have not yet