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THE SOCIAL AND POLITICAL THOUGHT OF

DAVID RICARDO

Dissertation
Presented in Partial Fulfillment of the Requirements
for the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

by

Ronald J. Hunt, B.S., M.A.

* * * * * * *

The Ohio State University
1973

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To my parents.

Special thanks are due to Professor David Kettler whose inspiration, encouragement, and careful criticism of the text made this project possible.

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CHAPTER I

LIBERALISM AND THE TRADITION
OF POLITICAL ECONOMY

"The science of political economy resembles more the sciences of morals and politics than the science of mathematics." (T.R. Malthus, Principles of Political Economy.)

... The opposition between political economy and ethics is only a sham opposition and just as much no opposition as it is an opposition. All that happens is that political economy expresses moral laws in its own way. (K. Marx, The Economic and Philosophic Manuscripts of 1844.)

... The final causes of all social changes and political revolutions are to be sought, not in men's brains, not in men's better insight into eternal truth and justice, but in changes in the modes of production and exchange. They are to be sought not in the philosophy but in the economics of each particular epoch. The growing perception that existing social institutions are unreasonable and unjust, that reason has become unreason and right wrong, is only proof that in the modes of production and exchange changes have silently taken place with which the social order, adapted to earlier economic conditions, is no longer in keeping. (F. Engles, Socialism: Utopian and Scientific.)

Introduction. Political Philosophy and Political Economy: The Case of David Ricardo

It is imperative at the outset to ask in what sense the theories of David Ricardo represent a political philosophy. To ask this question, however, presupposes a preliminary answer to a logically
prior question: What is political philosophy? A convenient—yet accurate—answer is that there is neither a body of knowledge nor an approach to the understanding of human affairs that, understood by itself, could claim the exclusive mantle of political philosophy. There are only competing, oftentimes contradictory, claims. Such, ultimately, must be the case with an evaluation of the writings of David Ricardo. Any attempt to define political philosophy as the principles discoverable in the corpus of Ricardo's writings or, vice-versa, to exclude his theories because they do not conform to some preconceived notion of the underlying concerns of the "dis­cipline" would—in all probability—involves a petitio principii.

This does not mean, however, that no justification is possible. A number of different understandings of what constitutes political philosophy have been enumerated.¹ A recent conception of the enterprise—by Michael A. Weinstein—will serve the function of classification as well, perhaps better, than that of any other.² After reviewing Weinstein's conceptual scheme it will then be possible to speak more clearly about the place of David Ricardo in the history of political philosophy.

* * *

According to Weinstein there are three basic issues which confront the contemporary political philosopher. The first, he identifies as the problem of "personal identity"; the second, as the problem of "organized power"; and, the third, as the problem of "political change." With respect to the first "problem," Weinstein feels that what is known to contemporary writers as "identity"
was understood historically under the rubric of "human nature."
And, as suggested by the change in the terms of reference, there
have been changes in the conceptualization of the problem.

The study of human nature is a challenge to explore
the characteristics of man in general. When people
become more interested in identity than in human
nature, they begin to believe that human beings in
large part create themselves through their actions.

Even the nominally great disparity between the outlooks of
existentialists and behaviorists narrows considerably on this
issue.

As much as behaviorists and existentialists differ
about the actual ways in which personalities come into
being, they agree that identities are largely formed
by social relations. While the existentialist would
argue that human beings create their characters through
choices and the behaviorist would hold that people mold
each other's characters through dispensing rewards and
punishments, both theorists are certain that the socially
significant aspects of human behavior cannot be explained
by a concept of an invariant human nature.3

The second "problem" identified by Weinstein is the impact
of "organized power" on human relationships.

Just as the classical problem of human nature has been
transformed into the contemporary problem of identity,
the ancient problem of power has become increasingly
reinterpreted as the problem of organized power struc-
tures.4

As Weinstein correctly points out, the traditional questions of
power relationships are most often identified with Thomas Hobbes.
Power, for Hobbes, meant basically two things: (1) the means to
the attainment of a future end and, (2) a more personal formula,
the ability of one individual to "command" another's action. A
more contemporary aspect of the same fundamental relationship is
the depersonalization of power relationships.

Increasingly, the power which affects us in our daily lives is the power of large and complex organizations, such as governmental bureaucracies, corporations, universities, armies, labour unions, and hospitals. As basic choices are made by large organizations, political philosophy must be cognizant of the behavior patterns of these aggregations of individuals if it is to retain an ability to explain the phenomenon of power in society. What has changed is not so much the basic definition (above) but the context within which power is experienced.

The third, and final, "problem" articulated by Weinstein is that of "political change." It is possible—from his perspective—to understand the phenomenon of change in several ways. There is, on the one hand, a characteristic "psychological" understanding of the process of social transformation which emphasizes the reduction of public problems to "private unrest." "Treat the individual" might be the motto of this conceptualization of change. Nor, as Weinstein points out, is this outlook particularly new.

While the idea of transforming individuals may appear frightening at first glance, it is really as familiar a practice as wishing away frustrations. After all, the great religions have taught that the most significant problems which human beings confront are problems of the soul. . . . Desireable social change will come about if people transform their inner lives in accordance with a religious commitment.

Alternatively, there is another broad understanding of change, a "systems" model, which emphasizes the impact of the social structure on man's attitudes and beliefs. The logical corollary of this position is that to accomplish social change significant changes in the structure of society must be accomplished. Here the "private
unrest" attains the proportions of a "public problem." Yet another understanding, more modest in its aspirations, is associated with "conflict theory." The conflict theorist is reform minded, a strategist, an efficient goal-oriented planner. "... Such theorists examine a zone between organizational norms and individual personalities. They are apt to think that people know what they want and that the problem is to figure out how they can get it..."7

In addition to the "problems" characteristic of the concerns central to political philosophy, Weinstein also identifies general "approaches" common to the endeavor. By the "classical" approach Weinstein refers to a tradition of discourse about public problems that "pays attention to any aspect of the lives of conscious human beings, as long as the subject affected the existence of an entire community."8 The "classical" approach is normally identified with the tradition of prescriptive—i.e., normative—discourse. By the tradition of "behavioralism" Weinstein refers to more recent developments in the field of political science. "Behavioralism" per se is not so recent a phenomenon, but its advocacy as a method to understand politics is relatively new. Its central thesis is that

political science should be recast on the model of physics, chemistry, and even sociology; political scientists should be concerned with what is actually going on in political life rather than what the rules and laws would lead one to believe should be going on; and political scientists should pay more attention to systematic generalizations.9

The "neoclassical and critical" approach, on the other hand, bridges the gap between description and prescription.
Every critical judgement . . . contains at least an implicit reference to some state of affairs that is considered desirable. Critical judgements also contain reference to what the critic thinks are the important aspects of what actually exists.10

In this fashion, according to Weinstein, it is possible to embrace both the normative and descriptive aspects of theory.

*       *       *

To return to the problem posed at the outset—that being the relationship between the writings of David Ricardo and the enterprise of political philosophy—it will now be possible to speak with a greater degree of specificity. Keeping in mind that the aforementioned categories are not mutually exclusive, it is nevertheless possible to speak of David Ricardo in terms that approach the categorical. It will be argued here that, in terms of an orientation, Ricardo exemplifies the concerns of an individual interested primarily in the "problems" of "change" and "organized power." And, in terms of an "approach," it will be argued that Ricardo bears a striking similarity to the tradition of "behavioral" inquiry.

In light of the "problems" identified by Weinstein, an examination of Ricardo's work discloses a complete absence of what he refers to as a focus on "identity." The essential validity of this statement must be qualified in one important respect, however. In the sense that what preceded the focus on "personal identity" was a focus on "human nature," it ought to be noted that Ricardo did have an implicit (and occasionally quite explicit) conception of "invariant human nature." He is in the mainstream of the
Utilitarian tradition in the sense that he fully accepts the doctrine of "egoism" as the psychological premise of human behavior upon which he rests his elaborate theoretical generalizations. Nevertheless, even in this sense, it is true that Ricardo never exhibited an interest in the characteristics of human behavior per se but, rather, accepted "egoism" as given.

What is evident in Ricardo's works is an interest in the "problems" of social change and the organization of power in society. Ricardo, it will be shown, evinces no desire for fundamental social reform. He accepts the chief characteristics of English society as the inevitable concomitant of a developed economy. His interest is a more modest one—that of conflict management. He exemplifies the concerns of a "strategist," a reform minded, "goal oriented planner."

As a necessary outgrowth of this concern with the "strategy" of conflict management, is a concern with understanding the nature of power relationships in English society. And this is truly Ricardo's forte. It is Marx, one of Ricardo's great detractors, who fully appreciates the power of Ricardo's system to explain the "forces" at work in the capitalist process; to see "economic relations exposed in all their crudity, to see the mysteries of the bourgeoisie unmasked." Or, as another commentator has expressed it, "if we use the work of Ricardo as a starting point for further investigation, following out one by one the various forces in operation, we may make economics a useful science." Continuing, he remarks:
The scientist should use Ricardo's work as a partially trusted guide in the early stages of an exploration into the realms of actual life, with a view to a better comprehension of the great complex of forces which drive and guide the wheels of industry and commerce.  

It is Ricardo, perhaps more than any other, who is regarded as the founder of the science of economics; and this because of the apparent explanatory power of his analyses. His ability to dissect the operation of the economic system and elucidate the forces at work sets the standard for three-quarters of a century.

Closely related to this problem orientation is his methodological orientation. Ricardo's methodology most closely approximates the category that Weinstein identifies as "behavioralism." He is not--to be sure--a mirror image of contemporary behavioralism. But he does demonstrate a concern with the concepts which are basic to the behavioral tradition. He is to be distinguished from a classicalist or neo-classicist in that his emphasis is not on normative discourse but on a description of the empirical world; and, he is a systematizer. He is not a scientist in the sense that we most often think of science today--as a set of related generalizations about observed phenomena. He conforms more closely to the traditional understanding of science as the explication of first principles. His method is predominantly deductive.

Of this attribute of Ricardo's writings there has been little subsequent doubt. And we need not rely on those who counted themselves among his followers--in particular, James and J. S. Mill, McCulloch, Marshall, Edgeworth, and Pigou. Despite serious misgivings, his critics often noted Ricardo's aptitude for abstract theorizing.
Once again it was Marx who, in many ways, was Ricardo's chief admirer—at least with respect to his theoretical capacity.

Ricardo's theory of values is the scientific interpretation of actual economic life . . . . Ricardo establishes the truth of his formula by deriving it from all economic relations, and by explaining in this way all phenomena, even those like ground rent, accumulation of capital and the relation of wages to profits, which at first sight seem to contradict it; it is precisely that which makes his doctrine a scientific system . . . .

A critic of a more conventional sort, Lewis H. Haney, summed it up this way:

Ricardo's thought was in advance of his English predecessors; in its schematic character it centered around a scheme or system, so far resembling the method of the Physiocrats. One thing comes first, then another; and all can be put in a nutshell. And this is no mean service. True it is that Ricardo's definition of concepts—like wealth and capital and land—have proved unsatisfactory; certainly his theories on rent, wages, and profits are regarded as incomplete and have been largely modified. It was not so much his originality in developing this or that point in theory which gave him his ascendancy; he was preceded by Quesnay, Turgot, Smith, Lauderdale, and Say. But these men left no complete and consistent systems. Ricardo did. He did the abstracting for the next generation. He clinched the claim of economics to be a science by giving it a backbone.14

Similarly George J. Stigler, no apologist for Ricardian economics, has commented:

The legendary figure of Ricardo as a stern logician and a powerful debator is, I think, correct in essentials. I should prefer to say that his logic was severe in its simplifications rather than superlative in its rigor, but the dominant characteristic of the man was undoubtedly his perseverance and consistency in dealing with a few basic ideas.

If economics is understood essentially as a body of substantive generalizations on the workings of economic systems, according to Stigler, Ricardo did little to advance the discipline. But
if we understand economics essentially as an instrument of analysis.

Ricardo, perhaps more than anyone else, advanced the discipline.

"Ricardo was a master-analyst . . . . Measured by the significance of the variables and the manageability of the system, he fashioned what is probably the most impressive of all models in economic analysis."  15

Nor was Ricardo entirely silent concerning his own intentions. Writing to James Mill in 1821 about the lengthy interchanges between himself and Malthus, he comments:

Political Economy . . . [Malthus] says is not a strict science like Mathematics, and therefore he thinks he may use words in a vague way, sometimes attaching one meaning to them, sometimes another and quite different. No proposition can surely be more absurd.16

If this admittedly rather crude and incomplete intellectual portrait may be used at the outset to categorize Ricardo as a behavioralist, it must not be at the expense of remembering his essentially reformist attitudes. As noted previously, Weinstein's categories are not to be understood as mutually exclusive. Just as Ricardo's interest in the distribution of power in English society stemmed from his interest in conflict management, so his characteristically "behavioral" orientation has a critical edge. His interest, in other words, was not merely in description. It will be argued that, at least in one way, Ricardo bridges the gap between classical and behavioral theory. He is a critic as well as an empirical theorist. He is not a critic in the sense that the word is used by Weinstein to elucidate the characteristics of the "neoclassical and critical" approach. Ricardo's critical standards do not appeal to an "ideal"
state of affairs. Rather, his critical standards emanate from what one contemporary commentator has labeled "Platonism"—a tendency to see "the political function exclusively as the application of disciplined intelligence to the rational solution of problems put before society by its objective circumstances." 17

*       *       *

It will be argued here and throughout that it is perhaps most accurate to understand Ricardo as a "policy scientist." This in no way precludes our previous observations about the nature of Ricardo's work. The qualities of mind which Ricardo brings to bear on his subject—a concern with organized power structures, an emphasis on empirical matters, and a capacity for abstract thought—are necessary ones if one is to be a successful diagnostician. Understanding Ricardo as a "policy scientist," then, serves only to further orient our perspective—to fuse together the attributes of his thought into a purposeful whole.

It would do well at this point to clarify the meaning of "policy science" as a mode of intellectual discourse. A conceptually clear, yet concise, attempt to define a science of public policy has been offered by Charles Lindblom. In his definition he attempts to distinguish between two modes of inquiry, one more traditional and theoretical, the other more contemporary and factually oriented. He characterizes the former in the following terms:

(1) A body of theory is applied to the particular situation in which a policy problem arises. (2) A comprehensive overview of all important variables is attempted by the analyst; or, if any important variable is neglected in the theory, the results are qualified to take it into
account, or the user of the results is warned. (3) Postulated values specify criteria by which alternative policies are to be judged; or if they are not simply postulated, their derivation is in any case a process separate from the purely scientific or positive analysis of variables. (4) . . . A presumption in favor of a particular kind of policy in a particular problem situation is derived from the general, theoretical argument for that kind of policy treated as a general rule . . . .

The contemporary approach is distinguished from the traditional approach, by Lindblom, in the following manner:

In the second method is found: (1) Relatively less reliance on theory. (2) A partial or fragmented view of the important variables. (3) A close intertwining of the search for values and the search for facts. (4) No policy presumption of the kind employed in the conventional method.

Ricardo, it will be seen, quite clearly corresponds to the former category of "policy science." In the same fashion that Ricardo adheres to the more traditional understanding of science (as noted above) it can be shown that the characteristics of Ricardo's thought conform neatly to the traditional understanding of "policy science." On logical grounds alone, therefore, we would expect Ricardo's work to be characterized by this more traditional outlook. But there is ample textual evidence of this as well.

And, on the question of the impact of public policy on theory, Stigler has remarked that

the classical problems of public policy have always provided much of the standard fare of economic theory: tariffs and monetary standards; monopoly; control of business fluctuations; the role of government and unions in labor markets; the incidence of taxes; banking structure; the treatment of the indigent—these have been persistent problems of policy and therefore of economic theory. The efforts of economists to understand these problems have led to advances in every branch of theory, including the most abstract branches.
To interpret Ricardo correctly, therefore, it is being argued that not only must one be cognizant of his focus on the problems of organized power and his characteristically behavioral approach, but that these concerns must in turn be understood as component parts of a policy orientation, a critique of existing institutional practices with a view towards change. His theoretical work is a by-product of his concern with questions of policy.22

Liberalism: An Historical Appraisal

To assert that Ricardo can be best understood as a "policy scientist," however, raises questions about the nature of the liberal tradition. For Ricardo was most assuredly a liberal. Throughout his life he was a consistent advocate of the principles of free trade. Ricardo was opposed to all forms of commercial restriction, domestic as well as international. He proved, as well, to be among the most outspoken critics of sedition laws. That the people should be accorded the right to hold public meetings for the purpose of redress of grievances Ricardo understood to be a fundamental principle of good government. He was also a proponent of Parliamentary reform. Briefly, Ricardo's stated positions on the question of reform were, first, that the sufferage be extended, feeling that the extension of the sufferage would constitute a most efficient "check" on the actions of the government. He was, in other words, a proponent of limited government. Secondly, in order that the people could exercise their vote freely, he proposed the introduction of the secret ballot. And, third, he favored more frequent elections. On these
subjects and others as well—which will be discussed fully in the ensuing chapters—Ricardo exhibited consistently "liberal" attitudes.

These "liberal" attitudes, it will be shown, stemmed from an understanding of politics and society intrinsic to the new science of political economy and, thus, of the Utilitarian tradition more broadly conceived. If we understand Ricardo as one who endeavored to develop a "science of public policy" it will be argued, in what follows, that this in no way differentiates him from the thrust of the liberal tradition; in other words, that the "policy science" orientation is a dominant (if not the predominant) orientation of liberal political philosophy.

*     *     *

To raise the question of the role of "policy science" in the liberal tradition is to raise the question of the liberal tradition itself. Because the contemporary understanding of liberalism as a social and political philosophy has suffered the fate of most other socio-political categories—that being a general confusion about the meaning of the term—it will be necessary to form an understanding of the tradition before assessing the place of Ricardo in it. What follows is an overview of the liberal tradition that emphasizes the concerns of classical economics as the singlemost important aspect of liberal philosophy. This in itself is a point of considerable contention and the author does not propose to resolve it here; but only to indicate the significance of the classical theories for an understanding of liberalism. In this way the work of David Ricardo can be more easily assessed in the light of its relation-
ship to liberal political philosophy.

The major sources of confusion in our understanding of liberalism, according to one contemporary commentator—Giovanni Sartori—are threefold. First, there is a confusion which has arisen from the disjunction between the substance of contemporary political movements who use the label "liberal" and the substance of the historical meaning of the term. Setting aside for the moment the problem created by the lack of a concrete historical definition of the term, the fact is that a great variety of political parties have used the term either as part of a party label or as part of a party platform. One result of this has been that there is little consistency in the use of the term in a cross cultural sense. Another result is that there has been little continuity in the use of the term as a party label or platform over time. Today's conservative in the United States was known as a liberal in the Nineteenth Century.

A second confusion about the tradition of liberalism, according to Sartori, involves the subtle historical commingling of the terms democracy and liberalism. Indeed, as Sartori suggests, both terms have, at times, taken on attributes characteristic of the other term. And it is especially true that the liberal tradition has become confused with aspects of the democratic tradition.

... In becoming confused with the idea of democracy, the concept of liberalism is also promiscuously used in two senses: to indicate (i) only liberalism, or to indicate (ii) democratic liberalism. Thus we hear talk of "social liberalism," of "etatiste liberalism,"... of "welfare liberalism," and so forth. But clearly, when we speak of liberalism in these contexts we are considering
the descent of liberalism, that is to say, a liberalism already combined with democracy. 26

If we are to speak of liberalism, according to Sartori, we must begin with the quid sui of liberalism, with the original meaning of the term.

A third set of difficulties associated with an understanding of the term liberalism, however, revolves around the very origin of the term. A major historical error has been perpetrated in the writings of historians, according to Sartori, because of the fact that the term "liberalism" was antedated fully two centuries by the phenomenon of "liberalism." Thus, paradoxically, in some countries people began to speak of 'liberalism' when they had ceased, or were ceasing, to be liberal. . . . 27 More importantly, however, is the fact that the term was coined in the midst of the industrial revolution, the meaning of the term being profoundly affected by that milieu:

Misfortune has thus brought it about that the name should be coined at a time when the novelty was not political "liberalism" but economic "liberalism." As a consequence the label has come to have more an economic than a political association: liberalism was called "bourgeois" and "capitalist," and its prophets were thought to be Adam Smith, Ricardo, and Cobden . . . .

Now let me stress that this is very unfair to liberalism. Locke, Blackstone, Montesquieu, Constant—to mention a few of the real founding fathers of classical liberalism—were not the theorists of a laissez-faire economy. To them liberalism meant the rule of law and the constitutional state, and liberty was political freedom, not the economic principle of free trade or the law of the survival of the fittest. 28

* * *

While it ought to be noted at this juncture that Sartori
has done us a favor in his attempt to isolate the factors which have contributed to the confusion in our thinking about liberalism, the endeavor to abstract the tradition of liberalism from the social and political milieu of which it was a part leads to a misunderstanding of a different kind. And this misunderstanding may be characterized, in Sartori's own words, as the fallacy of "conventionalism." Sartori's definition of liberalism is "very simply . . . the theory and practice of individual liberty, juridical defense and the constitutional state." Other understandings of the term become "abuses"—local and sectarian understandings of the fundamental historical idea. Yet Sartori's definition has all of the attributes of "conventionalism"; it is obsequious to tradition in that it does not convey a set of historical meanings but rather conveys a set of common understandings. To distinguish liberalism from democracy or from the theories of society propagated by the classical economists is useful in distinguishing the component parts of what has become one socio-political tradition, but to draw the lines rigidly reduces the meaning of liberalism to a mere set of stipulations devoid of any sense of history.

What Sartori chooses to ignore in his definition of liberalism is the emerging emphasis, among social and political thinkers in the eighteenth and nineteenth centuries, on an understanding of societal processes as a way of discovering the *modus operandi* of political systems. The emphasis on the political as the distinctive structural force shaping modern society, so characteristic of Hobbesian thought, gave way slowly to its antithesis; namely, that the political itself
was now understood to be structured by forces within the social structure. Sartori's emphasis on the formal and legal character of liberal political order is deficient to the extent that he ignores the emergence of the sociological and economic analyses of liberal politics in the eighteenth and nineteenth centuries. These analyses provide the sociological content—the substance, that is—of liberal politics. By ignoring these intellectual developments, Sartori fails to see the historical significance of the eighteenth and nineteenth centuries for the evolution of the corpus of liberal thought.

This "rediscovery of society," as Sheldon Wolin has put it, took two different routes. On the one hand, the rediscovery can be associated with individuals such as Montesquieu, Burke, de Maistre, Comte and de Tocqueville who "shared the viewpoint that the authority of political institutions was founded upon a myriad of social authorities and nourished by a variety of private loyalties."32 A second, and somewhat different approach, can be associated with John Locke, the French liberals, the English Utilitarians and the classical economists. Beginning with Locke, as Wolin points out, gradually society came to be conceived simultaneously as an entity distinct from political arrangements and as the shorthand symbol of all worthwhile human endeavor. . . . The political became identified with a narrow set of institutions labelled "government," the harsh symbol of the coercion necessary to sustain orderly social transactions.33

What is most common to the individuals associated with both of these orientations is their collective emphasis on the sources of order inherent in the societal processes. That is, despite their individual differences, they collectively represented a new trend
in political thinking—a reconceptualization of the context of power relationships. "The fundamental [liberal] principle is that in the ordering of our affairs we should make as much use as possible of the spontaneous forces of society, and resort as little as possible to coercion . . . ."\(^{34}\) And, together with this reorientation in approach, emerged a distinctive methodological reorientation perhaps best symbolized by Locke's Essay Concerning Human Understanding. "... Locke argued that philosophy ... should surrender its traditional concern with man's inner state and ultimate destiny, and turn instead to examining the kind of knowledge which would enable men to exploit the natural world."\(^{35}\) Taken together, then, these individuals provided fresh insights into the working of liberal political order.

The chief difference between the two aforementioned groups of individuals is the emphasis which the latter group attached to property as the essence of social relationships. Whereas those such as Burke, de Maistre, Comte and de Tocqueville inquired into "the system of social gradations; at the complex of non-rational 'prejudices' which disposed men towards obedience and subordination; at the ties spun by local community, parish; and manor,"\(^{36}\) the latter group of individuals emphasized the integrating effects of the economic dimension of human affairs. Their emphasis, in other words, centered on the system of social forces engendered by the emergence of propertytied relationships in Western Europe. This theme, to be sure, was given its most eloquent expression by the classical economists but it is evident as well in the writings of Locke and the French
This emphasis on property relationships as the foundation of society was the outgrowth, first, of the establishment of national and international markets for commercial produce and, later, of similar markets for the factors of production. And, as Polanyi has shown, the establishment of national and international markets for the factors of production, as well as for commercial products, was the historical development that presaged the characteristically liberal doctrines of the nineteenth century. "... The fount and matrix of the system was the self-regulating market .... The key to the institutional system of the nineteenth century lay in the laws governing market economy."^{38}

The importance of the creation of national and international market economies (ones in which the production and distribution of commodities are a function of a self-regulating mechanism), for our understanding of human relationships, was truly revolutionary. As Polanyi has pointed out, prior to the establishment of market economies, "man's economy, as a rule, ... [was] submerged in his social relationships."^{39} The economy, in other words, was an adjunct of broader social concerns. The establishment of market economies, however, reversed this tendency:

... The control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct of the market. Instead of economy being embedded in social relationships, social relationships are embedded in the economic system.^{40}

The consequence of this event, then, is no less than the
intellectual foundation for the study of political economy. If social relationships are assumed to be the predicate of the economics of the market, it follows that a detailed and theoretical understanding of economics is a prerequisite to understanding the structure of society. "If economics was the knowledge of society, nothing save humility could prevent the economist from assuming that society's relationships could be summarized through various economic categories." With the establishment of market economies, therefore, liberal theory took a decisive turn from a preoccupation with the political requisites of a social order to the social and economic requisites of political order.

But the emergence of market economies, first, at a national level and, later, at an international level, required the existence of two preconditions. First, the provincialism of trade in commercial products had to be overcome. The policy of mercantilism (the "'nationalization' of the market") was the agent of change in this pattern of economic behavior:

Deliberate action of the state in the fifteenth and sixteenth centuries foisted the mercantile system on the fiercely protectionist towns and principalities. Mercantilism destroyed the outworn particularism of local and intermunicipal trading by breaking down the barriers separating these two types of noncompetitive commerce and thus clearing the way for a national market which increasingly ignored the distinction between town and countryside as well as that between the various towns and provinces.

If mercantilism created the basis for a national market in commercial produce, however, it was also the roadblock to the establishment of the second precondition of a market economy; that is,
the mobilization of the factors of production (the fictitious commodities of land, labor, and capital, as Polanyi calls them) through a self-regulating market:

That mercantilism, however emphatically it insisted on commercialization as a national policy, thought of markets in a way exactly contrary to market economy, is best shown by its vast extension of state intervention in industry. On this point there was no difference between mercantilists and feudalists, between crowned planners and vested interests, between centralizing bureaucrats and conservative particularists. They disagreed only on the methods of regulation: gilds, towns, and provinces appealed to the force of custom and tradition, while the new state authority favored statute and ordinance. But they were all equally averse to the idea of commercializing labor and land—the precondition of market economy.44

From this perspective, laissez-faire, far from a spontaneously created order, was, in fact, a conscious feature of liberal public policy. The self-regulating market mechanism had to be created through the force of the state. If the historical premise of political economy, as noted previously, was that a knowledge of economics is a necessary prerequisite to an understanding of social relationships, we must not be so naive as to believe that political considerations were of no importance. Quite the reverse. The Nineteenth Century does not represent the "eclipse of the political" but, rather, only a change in the nature of political discourse.

And what better way to study the nature of these changes than by examining the English Utilitarians? As the most developed economy of the period, England was the first nation to undergo the transformation from a feudal system to a market economy. And this transformation is reflected in the thoughts of the prominent English thinkers of the age. "Market society was born in England . . . .
The Nineteenth Century, as cannot be overemphasized, was England's century. The Industrial Revolution was an English event.45

We may now turn to a discussion of the impact of these changing social forms on our understanding of socio-political processes. As heretofore mentioned, the establishment of market economies transformed the nature of liberal political thought. But it remains to specify the precise nature of this change. And the evidence of this change is nowhere more apparent than in the writings of the Utilitarian radicals.

**Politics and Society: The Utilitarian Tradition**

There is no simple formula which can describe in a precise way how the Utilitarian radicals perceived the relationship between political and social institutions. On the one hand, quite obviously, the individuals associated with this tradition did eschew an orientation that was expressly political; neither political values nor political institutions were understood as performing the sole integrative function in society. For the Utilitarians political life *per se* was not seen as an activity which enhanced either individual conscience or social values. This is not to say, on the other hand, that politics was ignored or that political life was denigrated. As Elie Halevy notes, within the Utilitarian Tradition, no single answer to the question of the role of politics in man's social existence is given.46 If on the one hand it can be said that the individuals in this tradition were suspicious of governmental "interference," it can also be said that they appreciated the need for the constructive
use of political authority in the affairs of society.

Evidence of this apparent ambiguity in the tradition is abundant. And it is perhaps nowhere more evident than in the writings of the key figure in this tradition—Bentham. Although Bentham did not concentrate on economics as a subject—preferring the subjects of law, politics and penology instead—it is nevertheless true that in his writings on economic subjects his perspective is different than it is on the subjects which occupied the bulk of his attention. "The natural identification of interests, eschewed in the political field, was accepted by him in the field of economics and the way was thus prepared for . . . [a] separation of politics and economics. . . ."47 Social integration was thus not understood by Bentham as a function of political authority alone.

Compare, for example, the following statements by Bentham on the subject of social integration. Concluding his Principles of Morals and Legislation is this distinction between "private ethics" and the "science of legislation":

Private ethics teaches how each man may dispose himself to pursue the course most conducive to his own happiness, by means of such motives as offer of themselves: the art of legislation (which may be considered as one branch of the science of jurisprudence) teaches how a multitude of men, composing a community, may be disposed to pursue that course which upon the whole is the most conducive to the happiness of the whole community, by means of motives applied by the legislator.48

In A Manual of Political Economy, on the other hand, Bentham adumbrates a policy position on the subject of commercial restrictions that would appear to contradict the above rationale for a science of legislation:
It may be laid down as a universal maxim, that the
system of commercial restriction is always either useless
or mischievous; or rather mischievous in every case, in
a less degree, or in a greater degree. In the judgement
of the purchaser, or the consumer, the goods discouraged must
be either better than those which are protected, or not; if
not better (of course better for a fixed equivalent), they
will not be brought, even though no prohibition exist:
here then is usefulness, or mischief in the lesser degree.
But the case, and the only probable case, in which the
fictitious encouragement will be applied, is that where
the goods excluded are better, or in other words cheaper,
than those sought to be protected: here is unqualified
mischief, mischief in the greater degree.49

Evidence of this ambiguity is also apparent in the writings
of others in the tradition. This ambiguity (or "dualism," as Halevy
prefers to call it) is the device to distinguish between individuals
classified as Utilitarians. Those who are preoccupied with subjects
related to economics are commonly referred to as individuals who
place a low premium on law as a rational mode for achieving societal
ends. Conversely those who emphasize non-economic facets of the
"private" domain, and the relationship of these aspects of social
life to public utility, tend to be characterized as individuals
who place a high premium on law as a rational instrument for
achieving social goals. Thus the economists tend to be grouped
together as a separate branch of the radical tradition.50 It is
in the writings of such individuals as Smith, Ricardo and Malthus,
so this common argument goes, that one finds the least reliance on
law as an instrument of social integration. In other writers, on
the other hand (notably Bentham and James Mill), one finds a con­
centration on legislative reform as an answer to understanding the
bases of social integration.
This terminological confusion has its roots in a highly complex and vague approach to the understanding of human affairs—associationist psychology. According to Halevy, this philosophy, and the psychology of association on which it is based, can be dated to 1730 with the publication of A Dissertation Concerning the Principle and Criterion of Virtue and the Origin of the Passions by Gay. Here, for the first time, is articulated the principle that "to seek pleasure is at once the necessary and the normal law of all human action and those actions are obligatory which lead to happiness." The difficulty which presented itself to Gay at this point was that although men agreed on the goal they seldom agreed on the means to achieve the end.

This is because everyone does not connect happiness with the same ideas, or, in other words, because the associations of ideas vary from individual to individual; and these individual variations are themselves submitted to a law which the moralist must know if he wishes to lead me to happiness.

Thus Gay articulated originally both a doctrine of Utilitarian morality and a doctrine of the psychology of association.51

Later philosophies of utility, however, do not reflect the simplicity of this original statement. There are, as Halevy notes, "three logically distinct and perhaps contradictory doctrines" which are present "in every Utilitarian doctrine."52 Stated briefly, these doctrines may be referred to as: (1) the "fusion of interests," (2) the "natural identity of interests," and (3) the "artificial identity of interests." The concept of "fusion of interests" refers to the identification of individual and general interests by means of the feeling of "sympathy"; that is, the feeling which interests
us in the well-being of our neighbor.

The two remaining doctrines, to the contrary, are based on an underlying premise of "egoism" as opposed to that of "sympathy." The doctrine "natural identity of interests" expresses the thesis that "the various egoisms harmonize of their own accord and automatically bring about the good of the species." "Private vices: public benefits," Mandeville's famous axiom in his Fable of the Bees, expresses this orientation to an understanding of social life. It is evil which is thought to ultimately account for our sociability as creatures; this same principle is transformed a half century later by Adam Smith into a fundamental assumption of political economy. The principle of the "artificial identification of interests," although also resting on the underlying assumption of egoism, arrives at a different conclusion from the one articulated by Mandeville: namely that "in the interests of individuals the interest of the individual must be identified with the general interest, and that it is the business of the legislator to bring about this identification." Bentham and his disciples were perhaps the most articulate and forceful representatives of this outlook.

The two outlooks resting on the assumption of egoism, then form the philosophical basis for the aforementioned "dualism" in the radical tradition; the "fusion of interests" and the underlying assumption of sympathy on which it is based is therefore—of the three perspectives on social life—a comparatively minor theme. The three answers to this basic question are all found to varying degrees in the works of the leading lights of the day: "There is
not one of them which is not present, more or less explicitly, in every Utilitarian doctrine.\textsuperscript{56}

Expressing relationships in civil society as—alternatively—artificial and natural is, according to Halévy, a philosophic reflection of the fundamental confusion in the minds of the Utilitarian radicals on the question of the constitutive elements of civil society. Not only is there disagreement between those who adopt a juristic versus an economic definition of integration, there is also ambiguity on this score among those who espouse one or the other of these orientations. As we have seen, this confusion extends to what appear to be internal contradictions in the writings of individual authors.

The question thus arises: how are we to explain the existence of these apparent contradictions? The answer to the question hinges on the perception of the exact nature of the problem involved. Can one account for the ambiguity mainly on historical grounds? Or, to the contrary, is it primarily a problem of logic. Halévy raises the question:

Should we . . . restrict ourselves to solving the contradiction by saying that the two principles each find their application in a distinct domain, and that the principle of the artificial identification of interests is the true principle of the science of law, while the principle of the natural identity of interests is the true principle of economic science? It is obvious that Bentham owed his juristic and his economic ideas to two distinct sources: and this is an excellent historical justification of the presence of two contradictory principles in one and the same system. But is this historical explanation equivalent to a logical solution of the difficulty? This does not seem to be so. Where should the line be drawn between the two domains which are as close to each other as the domain of law and the domains of political economy?\textsuperscript{57}
As Halévy points out one can discern an attempt to solve this apparent logical paradox within Benthamism. Perhaps the subject most amenable to an effort to reconcile the contradictions is democracy. As the premises of democracy can be understood to be the same as the premises of utility broadly conceived—that is, (1) the greatest good for the greatest number, and (2) that individuals are perfectly egoistic—it is clear that democracy can be understood to contribute to social integration in the same manner as expressed by the phrase "natural identity of interests." Understood in this way the "artificial identity of interests" is virtually indistinguishable from the "natural identity of interests." Once again, Halévy best expresses this understanding:

Let us suppose . . . that the majority of individuals which make up a nation is provided, by means of representative government and of the secret ballot, with the faculty of executing its desires promptly and surely. The majority which thus becomes the sovereign power is the least fallible of masters: for since each individual is the best judge of his interests, it is the majority of individuals which will be able to estimate the interests of the greatest number. It is, at the same time, the most irresistible of masters: for the most numerous are the strongest . . . . If ever this majority were transformed into an unanimity, the code would become nothing else than the systematic expression of the social truths on which could be built, thanks to the diffusion of scientific and moral knowledge, an agreement of intelligences and of wills: the laws would have the same authority as the geometry of Euclid and the astronomy of Newton.

The resolution of the paradox is not so facile, however, if one turns to economic subjects. Here the relationship between "artificial" and "natural" integration retains its "oppositional" character. On the one hand, the precepts of classical economics
are clear with respect to the deleterious effect of governmental "interference" on the "common good"—the "common good" understood basically as "efficiency" or "productivity" in the economic arena. On the other hand, the use of law as an instrument to structure economic activity is not ruled out. In fact, as discussed below, the law is often seen by those in the tradition as performing vital functions in the area of economic activity.

To anticipate the discussion of this problem in the next section, a provisional conclusion might be offered. Halevy's suggestion that the ambiguity (or "dualism") amounted to a source of internal contradictions within the tradition is somewhat misleading. For the Utilitarians the question of the natural versus the artificial identification of interests had little salience as a moral question. It was a question of a different sort for the radicals, a question that involved the maintenance of the institutions of civil society. That this is a question of moral philosophy is evident, but to the radicals it was a question of policy, of the correct formulation of policy. Thus the debate over the efficacy of law as a mode to achieve social integration was less a debate over the implicit ethical principles at stake than it was a debate over the efficiency of one mode versus another. Different situations produced an emphasis on one or the other possibility, but both modes co-existed in the tradition. And, in what follows, it will be argued that—at least for the political economists—the relationship between the artificial and the natural identity of interests was one of interdependence. The Utilitarian radicals were interested in formulating rules that
would enable an impartial observer to distinguish between various alternative policies on the score of which policy would be more likely to produce the intended effect. Metaphysical questions were subsumed within this framework; it was not granted that transcendent questions had an independent worth. The distinctive failure of the Utilitarian radicals in this regard was their collective failure to recognize the moral implications of this position.

Nascent Social Theory: Classical Political Economy

As Warren J. Samuels in his Classical Theory of Economic Policy points out, the paradigm of a "harmony of interests" (what we have heretofore referred to as the natural identity of interests) has long since failed to serve as an adequate explanation of economic relationships in a market economy. The "dualism" in the Utilitarian Tradition, as a whole, on the question of the organizational forces at work in civil society, is present also within each of the two major foci of Utilitarianism. The jurists did not conceive of civil society as the end product of law alone any more than the political economists conceived of it as the result of a harmonielehre. The law was understood to be conjoined with— not distinct from—the "natural" processes of civil society.

* * *

If the concept of a "harmony of interests" was ever taken to be an adequate understanding of the market economy, the publication of Lionel Robbins' Theory of Economic Policy in English
Classical Political Economy did much to undercut the acceptability of this doctrine. Although Robbins focuses his attack on those who are—in his opinion—responsible for the propagation of the "popular myth" concerning the classical system, he also includes others such as Elie Halévy—more "legitimate" scholars. Robbins understands Halévy's *The Growth of Philosophic Radicalism* to be the most effective treatment of the general proposition that the political economists did accept a harmonielehre as the understanding of social relationships in civil society. As can be ascertained from the discussion of the Utilitarian tradition above, it is true that Halévy tends to understand the problem in this way. And the inclination to rigidify the separation of jurisprudence from political economics and, consequently, the artificial from the natural identity of interests is quite complete in Halévy. Note the following treatment of this subject in *The Growth of Philosophic Radicalism*:

"It is not for the state, so the Utilitarians tell us, to assure to each one his just share in the product of the labour of society; for this is spontaneously provided for by the mechanism of competition." And, in the same paragraph:

The mistake of the Utilitarian economists was to found the abstention of governments not on an acknowledgment of our powerlessness to correct the imperfections of nature, but on an act of faith in the beneficence of natural laws: they travestied a naturalistic scepticism, which remains quite legitimate, into a rationalistic optimism which was certainly sophistical.

Now it is from the charge of sophistry that Robbins wishes to rescue the classical economists. The classical economists, according to Robbins, never conceived of the system of economic
freedom—about which they wrote so much—as a spontaneously created natural order. Quite the contrary. The system of economic freedom was understood to be a quasi-legal artifice; in other words, a product of the will of the legislator in response to direct public pressure for reform of the economy:

The System of Economic Freedom was not just a detached recommendation not to interfere: it was an urgent demand that what were thought to be hampering and anti-social impediments should be removed and that the immense potential of free pioneering individual initiative should be released. And, of course, it was in this spirit that in the world of practice its proponents addressed themselves to agitation against the main forms of these impediments: against the privileges of regulated companies and corporations, against the law of apprenticeship, against restrictions on movement, against restrictions on importation. The sense of a crusade which emerged in the free trade movement owed some of its force to other, extraneous, influences. But, up to a point, it is typical of the atmosphere of the general movement for freeing spontaneous enterprise and energies of which, without doubt, the Classical Economists were the intellectual spearhead. 64

Thus, in response to the question of whether a harmony of interests was presumed to exist by the Classical Economists, Robbins' answer is, yes. But it is a highly qualified, yes. The harmonielehre of classical economics, according to Robbins, is limited in at least three ways. First, their understanding of harmony presumed that the market would function in the prescribed manner; that is, the harmony achieved was understood to be perfect only to the degree that the pre-conditions of a market economy were met. Secondly, to the extent that a harmony of interests was presumed to exist, it was understood to be dependent on the government acting in a certain manner. It was assumed that the government was responsible for providing
the "framework" within which economic activity was to take place. And, it is assumed by Robbins that the freedom of action which was the by-product of the "framework" was a "freedom" best understood as a residue of action remaining after anti-social interests had been excluded from the arena. There is yet a third limit--different in kind from the first two--which Robbins mentions. Even given the fulfillment of the aforementioned pre-conditions, according to Robbins, the classical view abounds in conflicts of interest and pessimism.

The most that can be said of the Classical Economists in this respect is that they believed that, in a world of free enterprise, certain relationships would arise of a mutually advantageous kind to the individuals concerned and superior to those resulting from alternative systems . . . .

Understood in this fashion--that is, from Robbins' perspective--it becomes apparent that laissez-faire no longer suffices as an appropriate understanding of the classical theory of economic policy. Laissez-faire is inappropriate as the theory which explains classical economic policy for the same reasons that the concept harmonielehre is a misunderstanding of the classical conception of society. Both, according to Robbins, are over-simplifications. Laissez-faire fails to adequately call attention to the institutional structures within which the market forces operate. It, similarly, does not emphasize the "createdness" of order, concentrating instead on a "natural" order. Nor, because of the above inadequacies, does it suggest the subtle nature of the problems of freedom versus order in the social structure--as a theory of policy, it ignores or glosses over such problems.
What Robbins substitutes in place of laissez-faire has been termed by others as the "market-plus-framework" approach. This orientation is more amenable to an understanding of the identity of interests in civil society as the product of the will of the legislator and which, consequently, emphasizes the artificial nature of order in civil society. The role of the government was not seen by the classical economists to be neutral. It was assumed that the state performed positive functions in the productive process such as balancing the claims for freedom of activity emanating from consumers against similar claims on the part of producers. Likewise, to the extent that consumption was the primary end of economic activity, the state was seen to regulate the proportion of public versus private consumption; similarly, the state provided the "framework" for the rather narrow definition of consumption as the consumption of a "limited community," that is, the nation state. It is only within these limits that one can speak of market forces as a harmony of interests. And, consequently, the problem of freedom versus order, so mechanistic a policy question given the assumption of harmonielehre, becomes more and more metaphysical as the artificial character of the identity of interests is stressed.

Robbins' contribution, therefore, may be understood as a more complete analysis of the classical theory of economic policy. Laissez-faire is best remembered, according to Robbins, as a popular myth. As Warren J. Samuels remarks, the market-plus-framework analysis "has replaced a caricature with a more complete analysis."
approach to understanding classical political economy, however, it
is also deficient--according to Samuels--in several respects.

... The market-plus-framework interpretation as specified by Lord Robbins (a) neglects the nonlegal forces of social control; (b) fails to specify what is involved in the frame-work-providing function of government, at the very minimum and regardless of whatever else may be said of the frame-work concept; and (c) inadequately characterizes the classical view of the role of law as an instrument or mode of change. 68

Affirming the basic insight of Robbins' market-plus-framework approach, while correcting for its deficiencies, provides the groundwork for Samuel's reinterpretation of classical economic policy. This reinterpretation further attempts to demonstrate the interrelated nature of social institutions--economic, legal, political--thus also more accurately representing the nature of classical economic policy as it impinges upon the subjects of freedom and social change.

On the non-legal forces of social control Samuels has adduced a large amount of information. Covering the major figures in the tradition of political economics--Smith, Ricardo, McCulloch, Torrens, Bentham, James and John Stuart Mill--he develops the subject of the non-legal forces of social control under four major headings: "morals, custom, and education, and the generalized nondeliberative operation of indirection, ignorance, cosmology, and discipline." 69 He would also argue that religion ought to have its place on this list, although only in a highly qualified sense. 70 The pre-eminent work on these subjects is Smith's Theory of Moral Sentiments. It is from this work, argues Samuels, that the tone is
set for further discussions of these subjects in works such as Bentham's *Principles of Morals and Legislation*, Ricardo's *Principles of Political Economy and Taxation*, and Mill's *On Liberty*. The major understanding to be derived from Samuels' treatment of the subject is, in his own words, "to demonstrate the classical acknowledgement of the nonlegal forces of social control, and the important roles attributed thereto." To the criticism often directed at the classical economists—that they did not understand or appreciate the need for order—Samuels replies that the classical economists in general not only perceived the need for order but, in fact, fully understood the complexities of social systems and the role of both formal and informal agents of coercion in them.

It is not to be inferred from Samuels' treatment of the nonlegal sources of social control that the classical economists were preoccupied with the informal agents of control; only that they were collectively aware of the operation of these forces. Their basic emphasis was still, according to Samuels, what Robbins had attributed to them—an understanding of the *active role of government as an agent of control in the formal decision-making processes of the economy*. Here Samuels attempts to amplify on the traditional understanding of the role of the state in economic affairs. Not only does the state provide a general system of law and order within which the economy operates, the law is to be understood itself as an instrument which contributes to the structure of the economic process.

"... The structure of the economic decision-making process was not taken [by the classical economists] as something given; rather
it was a function of the operation of society, and law was one of the central component forces."\textsuperscript{73} Thus, according to Samuels, the market can be understood as an artifact. "The choice and development of the market system was a principal facet and criterion of the classical policy system as a whole, and a basic facet and criterion of their theory of the economic role of the state."\textsuperscript{74} Additionally, the state contributed in a more mundane but equally efficacious way to the development of a market society by facilitating the growth of various forms of business organization, a standard of value (money), and so forth.

These and other governmental operations concern the division of public and private decision-making power and form, from Samuels' perspective, one of two basic facets of a broader process.

This larger process is the structuring of the economic decision-making process as a whole, the basic problem of which is the allocation of participation in the exercise of choice in the resolution of the basic economic problems, the structure of which at any point in time is the result of the interaction of all the participants.\textsuperscript{75}

Another major role of law in the classical system—to be distinguished from the division of private versus public decision-making power—concerns the influence of the state in structuring even the private decision-making sector. And this influence, according to Samuels, can be seen in the fact that "private participation in the economic decision-making process was nominally expressed through the notion . . . of 'rights'"\textsuperscript{76} Basically, "rights" are to be understood as \textit{de jure} rights, the pattern of which are the product of conscious choices between different interests in the
law-making process.

However much the classicists were critical of mercantilism and the "privileges" granted special interests, they were fundamentally aware that all private rights were at least partially legal in character, and that the pattern of private participation was partially what it was because of legal selection of some interests over others.77

And, taking into consideration the requirements of industrialization, the legal system quite naturally reflected the interests of the propertied classes, particularly the interests of the emerging industrial aggregations of wealth.

One other aspect of Samuels' reinterpretation of the market-plus-framework must yet be mentioned—the relationship of law to social change outlined in Robbins' interpretation. It is Samuels' conclusion that

whatever agreement or disagreement there was concerning the specific content of the agenda of legal change, it is clear that the conditions of harmony were something that had to be created, and continually recreated, and that law was a mode of such re-creation or change. The role of law as a mode of change therefore is clear with respect both to the redisation of public and private decision-making power, and the redization of private participation.78

Thus, according to Samuels, "nonintervention" does not describe the classical system if it refers to the abstention of governmentally induced change. "Nonintervention" could only mean maintenance of the status quo; that is, maintaining the basic patterns of relative rights, maintaining the division of public versus private decision-making power, and so forth.

*    *    *

If we accept the above interpretation of the classical system—an interpretation which stresses the implications for social control
inherent in both the legal and nonlegal institutions of the classical system and which stresses the artificiality of the order created—it remains to be asked what implications this interpretation holds for an understanding of the classical theory of economic policy.

To recapitulate, Samuels agrees with Robbins that the harmony of interests of classical economics is not to be thought of as the product of a benign nature. It is rather to be thought of as the product of a conscious (although, as we have seen, non-deliberative elements are also important) decision-making process primarily on the part of the law-making instrumentalities, but including nonlegal institutions as well. The classicists saw both market and society as artifacts; that is, the organizational characteristics of market and society were seen to reciprocally condition the continued existence of a market economy, on the one hand, and bourgeois civil society, on the other hand; in the language of systems theory, dysfunctions were perceived to be minimal and, more importantly, amenable to correction. Furthermore, it was understood—in the same way—that the private interests were transformed into the public interest through both the action of the market and the legal process. Both were understood to be part of a larger and more all encompassing decision-making process—the very structure of the economy itself.

Now to understand classical political economy in this way—as a description and analysis of a particular institutionalized decision-making process—changes one's understanding of both bourgeois society and the role of policy making in such a society. As suggested previously, such an understanding de-emphasizes the concept of "natural
"harmony" as an explanatory tool, concentrating instead on the antagonistic nature of interests and the consequent need for the creation of a public order. The discussion of policy can no longer proceed, therefore, as if economic relationships were mutually advantageous but must recognize the "createdness" of order and the problems attendant to the creation of such order amidst the welter of conflicting demands advanced by the various interests in civil society.

This conception of civil society—as an aggregation of competing and bargaining groups—also involves a reorientation in our understanding of the state. The role of the state can no longer be viewed as passive. It must now be understood as an active participant in the larger socio-economic process—the struggle for power. Frank Knight has remarked in this respect

that the basis of a propaganda for economic freedom [was] found in two general principles. One is the presumption of mutual advantage in exchange with the individual as the judge of his own 'advantage'; the other, that the state as such has no ends but is a means to the welfare of individuals, and hence there is no conflict of interests there either. But this is clearly a misperception. "The truth clearly is," according to Knight, "that the central issue of economic policy is the distribution of power between individuals (families and other actual units or organizations) and between these and the 'community,' ultimately the sovereign state."30

On the importance of understanding the nature of the institutional structure in accounting for the decision-making process, Adolph Lowe has remarked:
What this amounts to can best be shown by an analogy. Since the decision-making units represent the "forces" in the universe of economic motion, ignorance about the relevant behavior patterns can be compared with the state of mind of a physicist who tries to predict planetary motion without knowing the strength and direction of the force of gravitation.

With this assessment Samuels agrees:

A theory of economic policy thus ultimately has to do with the structure of the economic decision-making process, i.e., the distribution of decision-making participation . . . . Its central problem is the manner in which the economy is organized and controlled and comprises a theory of the structure and operation of a particular economic decision-making process.

In this sense, a theory of policy thus also involves both a theory of social control and a theory of social change. According to Samuels, inasmuch . . . as a theory of policy involves the distribution of power in society, it is involved with the problem of order--i.e., the continuing resolution of the dual basic problems of freedom and control, and continuity and change which impinge upon all aspects of life.

In short, from this perspective, a theory of policy is in fact a social theory or philosophy complete with an implicit or explicit epistemology.

Perhaps a better way of stating this same proposition would be that the policy sciences are the unique form that social theory acquires in liberal bourgeois society. If, as suggested above, a theory of policy embraces not only certain isolated decision-making structures but a conception of the "distribution of decision-making participation" as well, the development of a science of policy is most appropriately thought of as an attempt to develop a social theory, at least to the extent that it involves questions of social order and change and, consequently, an organization of knowledge to
facilitate the purposes of the theory. Thus, liberalism may be thought of as, among other things, the organization of knowledge for the purpose of social control. The Utilitarians may be understood as being concerned with the initial development of a science of policy to supplant the older and more informal modes of social control.\footnote{85} As we have seen, neither the jurists nor the political economists derived a singular answer to the question of control; and this is probably attributable to the complexity of the problem of control in bourgeois society. The political economists attempted to derive a theory of society from a set of social-psychological premises that encompassed both the need for order and the fact that society was composed of competing factions (interests). The political economists, in other words, were among the first to develop the notion of conflict theory.
Several essentially different understandings of political philosophy have been tendered. An argument for "historicism" may be found in George Sabine's address, "What is a Political Theory," The Journal of Politics (1 February, 1939). A rebuttal to this line of argument may be seen in Leo Strauss, "On Classical Political Philosophy," Social Research, An International Quarterly of Political and Social Science, XII (February, 1945). An emphasis on "tradition" as the appropriate focal point of political philosophy is to be found in Michael Oakeshott's "Political Education," Peter Laslett (ed.) Philosophy, Politics and Society (Oxford: Basil Blackwell, 1956) and, finally, Karl Mannheim argues for a "sociology of knowledge." See his Ideology and Utopia (New York: Harcourt Brace and Co., 1936).


19. Ibid., p. 299.

20. See below, Chapters III and IV.


22. One forceful argument for this position, as well as an excellent survey of the literature on Ricardo, is to be found in Cecil Clare North's, "The Sociological Implications of Ricardo's Economics," The American Journal of Sociology, XX (1915).


24 "For instance, an American Liberal would not be called a Liberal in any European country: we would call him a left-wing radical. Vice versa, an Italian Liberal in the United States would be called a Conservative. Thus ... the one is opposite the other. As for the English Liberal, he would stand halfway between his Italian and American homonyms without resembling either of them." Ibid., p. 355.

25 "The misunderstandings spring from the fact that we say democracy sometimes to indicate 'liberal democracy,' and sometimes to indicate only 'democracy.' In the first case we are giving to democracy all the attributes of liberalism, and the democratic ideal is therefore presented as an ideal of freedom; whereas in the second case liberalism and democracy are again separated, and consequently the democratic ideal goes back to being equality." Ibid., p. 354.

26 Ibid., p. 355.

27 Ibid., p. 358.

28 Ibid., p. 361.

29 Ibid., p. 364.

30 Sartori does not adhere to the distinction between lexical and stipulative definitions. "The difference ... between lexical and stipulative definitions is so irrelevant that it is not worthwhile making a point of it. There is only one kind of definition, the stipulative; and this kind of definition can only be divided into old and new linguistic conventions. If we take the conventionalist position, we must be consistent; we cannot stop halfway. We cannot maintain that only stipulative definitions are arbitrary. Dictionaries will not help us escape the conclusion that all definitions are arbitrary." Ibid., p. 212.

31 Notice the apparent inconsistencies in the following passages from Sartori. When speaking of "democracy" he stresses the historicity of the word, of "rediscovering the historical dimensions of 'democracy.'" But when he speaks of "liberalism" he is guilty of the very charge which he levels at the "conventionalists," of hypothesizing "a language of the year zero."

"My argument can be summarized as follows: the meaning of the word democracy is not conventional because it is historical .... Obsequiousness to tradition is often a mere equivalent of mental inertia, whereas the kind of investigation required for rediscovering the historical dimensions of 'democracy' requires hard work and application .... 

.............
Even assuming that at the origins of speech we may find conventions, we ourselves are not beginners, and we do not start with a Tabula rasa. We are not architects trying to find out how to build a skyscraper, but inhabitants dwelling on the thirtieth floor, that is, with at least thirty centuries of records behind us. We tend to be ironical about 'the noble savage' and 'the man of nature' that so fascinated the Illuminists. But the conventionalists' approach to language is founded on a similar metaphysics; for it hypothesizes a language of the year zero while we are living in the twentieth century A.D., at a moment in which the term democracy has become a designator, or indicator, of a pattern of behavior which has been molded by a long and painstaking process of trial and failure concerned with the question: How can we be governed without being oppressed?" Ibid., p. 221.

"Must we come, then, to the conclusion that a liberalism does not exist but only many different liberalisms? And furthermore that these liberalisms must be sliced into a number of phases: the classical, the democratic, the social, the étatiste, the humanistic, the socialist, etc.? I think not. By the same token it could be maintained that not democracy but only many democracies exist, one for every nation, and further that each of these democracies changes from generation to generation. Yet on different grounds we may well speak of democracy in the singular, and it is perfectly admissible, correspondingly, to speak of liberalism in the singular--provided that the basic historical idea conveyed by this term is not confused with its local and sectarian varieties, or with its composite and ever changing stages." Ibid., p. 364.

Sartori's analysis is further confounding in that he proceeds from the analysis of the latter passage to a discussion of "liberal" versus "totalitarian" democracy. One may be privileged, at this point, to ask in what sense can the term democracy be used in the singular? A more adequate "historical" approach to the definition of "liberalism" and "democracy," of the sort which Sartori himself calls for, can be found in C.B. MacPherson's The Real World of Democracy (Oxford University Press, 1966).


33Ibid., p. 291.


36Ibid., p. 290.


38 Karl Polanyi, the great transformation: the political and economic origins of our time (Boston: Beacon Press, 1963), p. 3.

39 Ibid., p. 46.

40 Ibid., p. 57.

41 Sheldon Wolin, politics and vision, p. 300.

42 This is already apparent in the writings of John Locke.

"By this is meant not that the powers and jurisdiction of government were closely restricted, for Locke's language allowed generous scope for government action, but rather that Locke initiated a way of thinking in which society rather than the political order, was the predominant influence. Instead of asking the traditional question: what type of political order is required if society is to be maintained; Locke turned the question around to read, what social arrangement will insure the continuity of government?" ibid., p. 303.

43 Karl Polanyi, the great transformation, p. 65.

44 Ibid., p. 70.


46 Elie Halévy, the growth of philosophic radicalism, trans. by Mary Morris (Boston: The Beacon Press, 1966), Ch. I.


Further evidence of the dualism in Bentham's own writings is provided by Harrison: "In the principles he was providing an introduction to a penal code. But he had also before 1789 recorded his views on civil law. He had considered the necessary interconnection and interdependence of legal rights and duties in a practicable legal system, and he had advocated as a rational aim for the law the maintenance of security, subsistence, abundance and equality with security as the 'principal object.' He had, further, already expressed himself on political economy as a disciple of Adam Smith: in the economic field the maximizing of happiness depended upon the reduction of intervention by government to the unavoidable minimum." ibid., p. xxxvi.


See, for example, Guido De Ruggiero, *The History of European Liberalism*, p. 109.


Ibid., p. 13.

Ibid., p. 15.

Ibid., p. 17.


Ibid., p. 13.

Ibid., p. 489.

Ibid., p. 491.

"It is the universality of law which alone makes it intelligible. To say of any relation that it is necessary is to say not that it is intelligible but that it is constant. For me to be able to exert an influence on external nature it is not necessary for me to understand the relations of phenomena to each other as intelligible relations; but merely that these relations should be constant and that by producing a first phenomenon I can be sure to cause the appearance of a second phenomenon, which I desire to produce. No man needs knowledge in excess of his power. This is the Newtonian conception of the laws of nature: it agrees with the new scientific conception, which is defined as being no longer contemplative and theoretical, but active and practical, as aiming at securing our domination over external nature through the knowledge of natural laws." Ibid., p. 6.


Ibid., p. 499.

Ibid., p. 19.

Ibid., p. 28.

Ibid., pp. 20-28.

68 Ibid., p. 17.

69 Ibid., p. 73.

70 Ibid.

71 Ibid.

72 Ibid., p. 75. As noted in the text, Samuels has culled a very substantial amount of information on the nonlegal sources of control, of which the brief mention here can only be a woefully inadequate substitute. The wealth of information on which he bases his observations is contained in his "notes" to Chapter II, pp. 76-97.

73 Ibid., p. 103.

74 Ibid., p. 104.

75 Ibid., p. 107.

76 Ibid., p. 108.

77 Ibid., p. 112.

78 Ibid., p. 151.


80 Ibid., p. 282. Knight has commented elsewhere on this general subject. Commenting on the distinction between "price theory" and "institutionalism" in economics he remarks: "... The original purpose of economics on the classical price-theory line was educational or, one might say, propagandist. It was to show that free cooperation of individuals as consumers and producers, under the guidance of price fixed by free purchase and sale in markets, is a way, and within wide limits a better way, than tradition and authority, to organize the efficient use of resources to achieve the freely chosen ends of individuals . . . . For this purpose it does not matter what particular wants the individuals have or what concrete resources they possess or what technical processes are known and available. Taking freedom as a fact and as the norm of policy makes these things irrelevant. The purpose of explaining that this comes about, and how, is not less important now than it was in 1776 or at any time in the past. But as the open market organization came into more unrestricted prevalence, unquestioned and even intolerable weaknesses developed; and discovery
of the reasons for these and of suitable remedial action became im-
portant and then imperative. The matter of suitable action—separating
evils reasonable attributable to the economic order from those which
belong to the lot of man on earth—is of course more acute now than ever.
For these purposes, price theory is in general fairly adequate, at least
in the earlier stages of inquiry.... Institutionalism and the rest
are therefore to be viewed as independent studies of the same broad
subject matter from the standpoint of different objectives. And the
task of methodology is to show what are these other points of view and
the corresponding modes of attack. For the most part, they center
in the area...[of] accounting for the wants, resources, and tech-
nology which price theory takes as given." Frank H. Knight, "Insti-
tutionalism and Empiricism in Economics," American Economic Review
(papers and proceedings), XXXII (1952), 49.

81 Adolph Lowe, On Economic Knowledge Toward a Science of

82 Warren J. Samuels, The Classical Theory of Economic Policy,
p. 12.

83 Ibid., p. 237.

84 Ibid., p. 13.

85 For a recent discussion of the changing character of social
control in this era see Michael Walzer, The Revolution of the Saints:
A Study in the Origins of Radical Politics (New York: Atheneum, 1970),
esp. pp. 300-306.
CHAPTER II

DAVID RICARDO: POLICY SCIENTIST FOR A LIBERAL SOCIETY

The political state, in relation to civil society is just as spiritual as is heaven in relation to earth. It stands in the same opposition to civil society and overcomes it in the same manner as religion overcomes the narrowness of the profane world; i.e., it has always to acknowledge it again, re-establish it, and allow itself to be dominated by it. (Karl Marx. On the Jewish Question).

... A market economy can exist only in a market society .... A market economy must comprise all elements of industry, including labour, land, and money .... But labour and land are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists. To include them in the market mechanism means to subordinate the substance of society itself to the laws of the market. (Karl Polanyi. The Great Transformation).

The liberal-bourgeois concept of a policy science, as we have seen, is—at one and the same time—a recognition of the secular nature of order and of the need to explain the emerging socio-political relationships of market societies for purposes of control. And, although the notion of a policy science is as old as political thinking, the policy sciences as we know them today originated with the development of commercialism and the advent of the discipline of political economy. Smith's great work, An Inquiry into the Nature and Causes of the Wealth of Nations, stands as the culmination of a century of writing in the new field of a science of trade. Sir James Stewart's
An Inquiry into the Principles of Political Economy: being an essay on the science of domestic policy in free Nations (1767), Quesnay's Tableau Oeconmique (1759), and John Cary's A Discourse on Trade (1717) are probably the most influential works in this area prior to Smith. All were concerned with developing theoretical principles to explain the conduct of trade, but none more so than Adam Smith.

Smith referred repeatedly to a science of political economy, which he subsumed in his Lectures under jurisprudence, "that science which inquires into the general principles which ought to be the foundation of the laws of all nations." It is as true for Smith as it is for others in the tradition that the science of which they spoke was essentially a policy science; i.e., a science of the economic decision-making process. As Samuels has pointed out, however, the policy orientation of those like Smith was not restricted merely to the decision-making process, but extended to the sociological character of that process as well. Rights and obligations, custom and habit (the legal and the non-legal sources of social control) were understood to refer to a set of social roles, themselves a product of the political process as much as the very structure of the economic decision-making process itself. The science of political economy, for Smith, "that science which inquires into the general principles which ought to be the foundation of the laws of all nations," is thus an investigation, not merely of a functionally isolated decision-making process known as economics, but an investigatory of the social requisites of that decision-making process. Stated another way, the social structure comprises a vast decision-making
arena within which the gratification of material wants and the main­
tenance of order are accomplished.

This general perspective with its emphasis on the socio­
logical determinants of the economic decision­making process is also
evident in the writings of Ricardo. Like Smith, and the classical
economists in general, Ricardo accepted the general notion that order
was the direct product of human arrangements, whether legal or non­
legal:

To keep men good you must as much as possible withdraw
from them all temptations to be otherwise. The sanctions
of religion, of public opinion, and of law, all proceed on
this principle, and that State is most perfect in which all
these sanctions concur to make it the interest of all men
to be virtuous, which is the same thing as to say, to use
their best endeavor to promote the general happiness.2

From Ricardo's perspective, it was the structure of the British
Parliament, dominated as it was by the interests of the large land
owners, that stood in the way of the rising middle classes, the rep­
sentatives of the industrial sector of the economy. The key to the
control of the economy by this rising industrial bourgeoisie lay in
its ability to "command" both the markets for its produce, as well
as the instruments of production, through the forces engendered by
supply and demand in the "self­regulating" market. It was only if this
class of industrial bourgeoisie were "free" to combine the instruments
of production into productive relationships, and to "freely" market
their produce, that industrialization could proceed and England maintain
its dominant position as a world power. The assertion that the economy
be "free" from governmental restraints was a claim, the importance of
which was nothing less than a movement to change the social basis for
the exercise of power in British society. It proved to be a successful
attempt to replace the aristocratic class with the industrial bourgeoisie
in the seat of power. What would be accomplished in France through
revolution would be accomplished in Britain through a relatively peaceful
transfiguration of society marked by the transference of power to the
capitalist class.

But, as we have had occasion to note in the last chapter,
the existence of the conditions favorable to the exercise of economic
power by this class required the formation of a market economy and this
could come into being only through the active intervention of the state.
This, in turn, meant that state power would have to be captured by the
industrial classes, which event was retarded by the structure of an
unreformed Parliament. It was on behalf of the industrial bourgeoisie,
then, that Ricardo argued for Parliamentary reform. The Parliament
was in need of reform in order that the organ of governmental power
did not stand in the way of the exercise of power, through the market,
by the industrial bourgeoisie. And the need for a reform of Parliament
was evident in the impolicy of the government's policies on economic
questions, particularly with respect to the poor laws, the Bank
restriction and the corn laws.

It is to the question of economic reform in general—and of
the reform of Parliament and of the poor laws in particular—that we
now turn.
Ricardo and the Movement for Reform

As we have had occasion to note in Chapter I, the emergence of a market economy in England, and thus of a market society, was dependent on the dual movements to (1) establish national and international market systems for the produce of agriculture and industry and (2) the corollary development of market systems for the instruments of production—land, labour, and capital. If mercantilist policies were largely responsible for destroying the provincialism of domestic trade in commercial produce, the legacy of mercantilism was nevertheless protectionist with respect to the factors of production.

The first of the obstacles to the emergence of a free market economy—the nationalization of the markets for agriculture and industrial produce—was eliminated through the deliberate action of the state in the fifteenth and sixteenth centuries. Prior to this time commerce was organized around the medieval town and the system of burgesses. "The town was an organization of the burgesses. They alone had the right of citizenship and on the distinction between burgess and the non burgess the system rested."^3 The town burgesses possessed the power to regulate the terms of commercial transactions, which they did for both agricultural and industrial produce. "As to food supplies, regulations involved the application of such methods as enforced publicity of transactions and exclusion of middlemen, in order to control trade and provide against high prices."^4 Likewise, with respect to industrial production, output "was regulated according to the needs
of the producers, thus restricting production to a remunerative level. 5

Both in the case of agricultural and industrial regulation by the burgess system, the effect was either to erect prohibitive tariff barriers on imports or to exclude imports altogether. The reason for this was that neither agricultural or industrial production for export was regulated in the same manner as was such production for the local market.

Spices, salted fish, or wine had to be transported from a long distance and were thus the domain of the foreign merchant and his capitalistic wholesale trade methods. This type of trade escaped local regulation and all that could be done was to exclude it as far as possible from the local market. 6

Industrial production for export, "where the interests of producers set no limits to production," similarly escaped the regulation of the burgesses, being "formally controlled [only] by [the] corporations of crafts." 7 The response of the medieval towns was, thus, not to establish regularized terms of commercial trade between the towns, or between the towns and the countryside, but simply to exclude imports; . . . The typical medieval town did not try to avoid the danger by bridging the gap between the controllable local market and the vagaries of an uncontrollable long-distance trade, but, on the contrary, met the peril squarely by enforcing with the utmost rigor that policy of exclusion and protection which was the rationale of its existence. 8

As we have seen, it was only through the interposition of the national government that this system of local trade was replaced by a truly national system of exchange. But while the central government created a nation-wide basis for exchange, it inhibited the formation of markets for land, labour and capital by restricting the process of
accumulation. In the case of land, such accumulation was restricted by the anti-enclosure policies of the Tudors and early Stuarts. These policies checked the efforts of the large landowners to acquire the strips of land belonging to the small independent cultivators and thus, also, to introduce large scale intensive farming. Under the system of "common fields," the heritage of the feudal system of land proprietorship, agriculture was characterized by the cultivation of small plots and was basically a subsistence form of farming. If agriculture was ever to provide for the needs of an industrializing economy, it would have to become more productive—thereby expanding yields and releasing labour from the land for work in the factories—which could only be accomplished by the intensive farming of large undivided tracts of land. But this required that there be a market in land, and this there was not.

Neither were there effective markets in money or in labour. The prohibitions on the formation of a national market for labour were of much greater consequence, however, than the relatively minor restrictions governing the formation of a market for capital. Usury laws remained on the statute books until the mid-nineteenth century but, because they allowed for profitable rates of interest and were not enforced strictly, they were not an effective roadblock to the formation of a national money market. Banks were created and they provided a necessary source of funds for the conduct of public agencies as well as for private commercial ventures. A national market in money became well established during the mercantile period. Such was not the case
for labour. Labour legislation was nationalized through the Statute of Artificers (1563) and the Poor Law (1601), the effect of which (as we shall see) limited the availability of labour to the industrial sector of the economy.

Thus, while mercantilist policies may be credited with the formation of national markets for commercial produce, these very same policies restricted the formation of markets for the factors of production—chiefly, land and labour. And, furthermore, while it is to mercantilist policy that we must look for the origins of national markets, mercantilist policy impeded the formation of international markets:

In a pamphlet published in 1664 by Thomas Mun, called England's Treasure by Foreign Trade, the mercantilist theory of trading is explained "to consist in keeping imports less than exports, thus to secure a favourable balance, and provide an abundance of money which could be drawn upon in time of need." The balance of actual money was advocated in the seventeenth century mainly as a means of providing a treasure for the purpose of national defense . . . . In the eighteenth century, after the loaning system had arisen, and it was no longer deemed necessary to put by stores of money for national purposes, the balance of trade came to be regarded as the measure of the prosperity of industry. The practical measures urged by Mun to carry out his theory were prohibition of the export of gold and encouragement of its import, encouragement of export of goods, and discouragement of all imports except the raw materials of industry. Systems of tariffs and regulations were devised as the machinery to carry into effect this policy, out of which grew up the protective system . . . .

* * *

It was thus to the reform of an economic system fettered with state regulations that the classical economists turned their attention. Public policy had to be reformed before the process of industrialization could proceed. And the economic reforms of which they spoke may be
subsumed under the general rubric of "natural liberty;" "that the
national welfare depends upon the exercise of personal freedom in the
ordinary business life by the individuals who compose the state." Therefore, while the mercantilists had argued that the national welfare was a function of state regulation, the classical economists argued the very reverse; namely, that the national welfare was synonymous with the freedom of individual initiative:

The economic evils of restrictions upon commerce were very forcibly set forth by Adam Smith; they checked the growth of wealth, and tended to impoverish the people by excluding desirable commodities; bounties upon [im]ports only forced special industries artificially at the cost of the community, while checks on the export of machinery injured the machine-making industries, besides destroying the mutual advantages of exchange. Taxes on food, either home-grown or imported, were, as Adam Smith said, "a curse equal to the barrenness of the earth and the inclemency of the heavens," and an attempt to destroy or reject nature's free gifts. As he suggests in his criticism of the Corn laws, "were all nations to follow the liberal system of free exportation and free importation, the different states into which a great continent was divided would so far resemble the different provinces of a great empire." But so numerous were the restrictions upon external trade in his day, so powerful the interests which profited by them, and so deep rooted the belief in the efficacy and necessity of this state control, that Adam Smith had little expectation that the principles he advocated would ever be realized in practice. In his own words: "To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but, what is much more unconquerable, the private interests of many individuals, irresistibly oppose it . . . ."  

By the late eighteenth century the economic obstacles to the establishment of a market economy were primarily of two sorts. First, domestically, the Poor Law continued to function as an effective
obstacle to the creation of a national labour market. As we have seen, a viable money market had developed as early as the seventeenth century to meet the needs of the commercial classes, despite the existence of usury laws which remained on the statute books until 1854. Likewise, the anti-enclosure policies of the Tudors and early Stuarts had been reversed by the Enclosure Acts during the reign of George III. 12 But the Poor Law was not repealed until 1834. Secondly, international trade was still encumbered in the latter half of the eighteenth century with a variety of protective tariffs as well as by the Navigation Acts. 13 These restrictions on international trade, together with the Poor Law, remained the most persistent obstacles to the establishment of a market economy in Britain. The Navigation Acts were not repealed until 1849, and it was 1864 before the last duties of an explicitly restrictionist character were removed from the books.

Politically, the fundamental obstacle to the reform of the economic system was the archaic structure of power in Parliament. Although the eighteenth century had seen the rise of an industrial class, these interests were not represented in Parliament. Parliament was dominated by the landed aristocracy, in itself a major reason for the eventual adoption of enclosures as public policy. But if the landed interests in Parliament had acted to create the conditions favorable to the establishment of a market in land, they were also fiercely protectionist, especially with respect to foreign competition in agriculture. As long as Parliament was dominated by these interests the establishment of a true market economy,
the motive force of industrialization, would be retarded.

The manufacturers . . . were defenseless. A newly formed class, they found themselves confronted by an ancient political system in which they had no place. Not only was the House of Lords monopolized by the landed aristocracy, but the House of Commons was in the same condition; for its representatives were for the most part nominated by electoral bodies entirely subservient to the great landowners. On the one hand stood the counties and boroughs, formed by a few scores of electors depending upon a landowner and voting publicly under his eye; on the other, the new industrial centers, either unrepresented or possessing privileged representations like those of other electoral bodies, which emphasized still farther the contrast between the actual forces of the country and the few possessors of political rights.14

By the end of the eighteenth century, therefore, there remained powerful obstacles to the process of industrialization—both political and economic. And it was against these obstacles that Ricardo, and the classical economists in general, spoke so vociferously. In a single-minded fashion Ricardo advocated the interests of the emerging industrial classes. The economy would have to be reformed to reflect the interests of these classes. The Poor Law, which effectively checked the mobility of labour, had to be abolished. "The elements of industry had to be on sale."15 It was only if the factors of production were on sale that the industrial classes could mold these elements of industry into a productive configuration. And the same reasoning applied to restraints on international trade; the expansion of the industrial sector was dependent on cheap sources of raw materials and the availability of markets for their wares, both of which were encumbered by the various duties on foreign commerce. Behind all of this impolicy was an archaic Parliament, whose interests were adverse
to that of the industrial classes, and which body promulgated policies restricting the activity and, thus, the growth of these classes. Parliament had to be reformed along with the economic structure to more adequately reflect the interests of the industrialists, and a new body of economic principles had to be articulated which would serve as an appropriate guide to the formulation of public policy in an era of industrialization. Ricardo, more than any other single figure, pointed the way.

Although Ricardo wrote on the eve of the great reform bills which were to transform England into a modern industrialized polity, he lived to see few of the policies which he advocated promulgated into law. Of the major issues to which he directed his attention, only his vigorous opposition to the Bank Restriction of 1797 found light in Parliament during his lifetime. Ricardo's public advocacy of reform came during a time immediately following the collapse of an initial movement for reform—coincident with the first years of Pitt's administration—and the eventual success of the reform movement between the years 1825-1850. Pitt had been much influenced by Adam Smith and had sought to enact into law many of the reforms suggested in the *Wealth of Nations*. He proposed that England enter into commercial treaties with both Ireland and France in order to reduce the level of tariffs and promote foreign commerce. And he was, as well, a cautious advocate of Parliamentary reform advocating, in 1785, a bill which would have disenfranchised some of the rotten boroughs. But these years, though full of optimism, saw little by the way of reform accomplished.
The French revolution and the ensuing war between England and France, in 1793, brought all hopes for reform to an end. And the lengthy duration of these wars produced a very unfavorable climate for reform proposals. England was engaged in an expensive military commitment which required heavy public spending and assured sources of raw materials, hardly a time to be talking of free trade. But it was during this period that Ricardo wrote, and it is largely due to his influence that the reform movement maintained its vitality during these years.

* # #

Ricardo's career was a tripartite one, embracing as it did his activities as a stock jobber and loan contractor on the London Stock Exchange, his authorship of numerous books and pamphlets on the economic issues of the day, and his brief tenure as an M.P. If Ricardo was among the most highly successful members of the London Exchange, and the most influential exponent of economic reform in Britain, he was also "one of the first Radical members of the House of Commons, and the first economist to give the science of Adam Smith a decisive turn towards industrialism."16

Although ultimately destined to be among the most prominent men in public life, Ricardo showed little evidence of these qualities in his early years. As Moses Ricardo (David Ricardo's brother and biographer) has remarked: "In the early history of Mr. Ricardo's life there is nothing, the relation of which would be likely to excite either attention or interest."17 David Ricardo was born 18 April 1772 the third son of Abraham Ricardo,18 a prominent Jewish figure of
The father is described in the "Memoir" as "a man of good intellect, but uncultivated." Moses continues: "His prejudices were exceedingly strong; and they induced him to take the opinions of his forefathers in points of religion, politics, education etc., upon faith and without investigation." To this image is contrasted that of David Ricardo—a man of reason who "never yielded his assent on any important subject, until after he had thoroughly investigated it;" a man, in short, characterized by "independence of thought." "It was perhaps in opposing these strong prejudices, that he was first led to that freedom and independence of thought for which he was so remarkable, and which has indeed extended itself to the other branches of his family."

"Of his early education in London," Piero Sraffa remarks, "all we know is what the Memoir says of his having received a 'common school education' and altogether to have had such advantages as were the usual lot of boys 'destined for a mercantile line of life.'" His subsequent education—ages eleven to thirteen—was in Amsterdam at the Talmud Tora, "a school of great reputation." Although this marks the end of his formal education (David at the age of fourteen was already engaged by his father's firm on the stock exchange), the "Memoir" tells us that he maintained an intellectual curiosity during these early years. Sraffa reports that about the age of twenty-five, after marriage, he turned his attention to scientific subjects, particularly to mathematics, chemistry, geology and mineralogy. His interest in the last two subjects continued into later life, and led him . . . to take an active part in the management of the Geological Society of London."
Continuing, Sraffa conjectures that the early mathematical and scientific studies . . . must have been a more decisive influence on Ricardo's characteristic cast of mind than the teachings of his later mentors, James Mill and Bentham, whose approach was essentially that of jurisprudence and moral philosophy.25

His interest in political economy was apparently awakened quite by accident. The "Memoir" reports:

It was not till Mr. Ricardo was somewhat advanced in life that he turned his attention to the subject of political economy. While on a visit at Bath, where he was staying for the benefit of Mrs. Ricardo's health, he took up, and read, the work of Adam Smith. It pleased him; and it is probable that the subject from that time occupied, with the other objects of his curiosity, a share of his thoughts, though it was not till some years after that he appeared to have fixed upon it much of his attention.26

J. R. McCulloch fixes the date of his stay at Bath at 1799.27 Approximately ten years, then, passed between the time of this initial contact with the Wealth of Nations and Ricardo's first publications on the subject of economics, his letters to the Morning Chronicle on the Bullion Question of 1809-1810. These initial contributions were followed in quick succession by a long list of publications, all of which were printed in several editions. The High Price of Bullion, A Proof of the Depreciation of Bank Notes first appeared in 1811 as did his Reply to Mr. Bosanquet's Practical Observations on the Report of the Bullion Committee. These publications, in turn, were followed by his Essay on the Influence of a Low Price of Corn on the Profits of Stock . . . in 1815 and by his Proposals for an Economical and Secure Currency . . . in 1816. His most influential work, On the Principles of Political Economy and Taxation first appeared in 1817.
A further article appeared in the *Morning Chronicle* entitled "The Fundin,
System" in 1820; *On Protection to Agriculture* appeared in 1822; and his
*Plan for the Establishment of a National Bank* was published post-
humously in 1824. In addition, his extensive correspondence with
Malthus, Mill, McCulloch and Say, among others, has been preserved
largely intact, and we know the substance of most of his speeches in
Parliament.

Concurrent with his publishing activities Ricardo was occupied
with other professional activities—his activities on the Stock Exchange
'and later as an M.P.—which took precedence over his writing. Indeed,
Ricardo often complained of the lack of time he found for pursuing
his "favourite science." It was chiefly his activities on the
Stock Exchange which first led him to openly air his views on eco-
nomics, the occasion being the wartime inflation:

The immense transaction which he had with the Bank of Eng-
land, in the course of business, tallying with the train of
study on which he was then engaged, led Mr. Ricardo to re-
flect upon the subject of the currency, to endeavor to account
for the difference which existed between the value of the coin
and the Bank Notes, and to ascertain from what cause the de-
preciation of the latter arose.

Ricardo's activities on the Exchange are known in some
detail. By the most conservative of estimates he was highly success-
ful. As noted previously, Ricardo's experiences on the London Ex-
change began early in life, being employed by his father's firm at
age fourteen. This affiliation with his father lasted for approximately
six years, until 1793, when he married outside of the faith and against
the will of his parents. At this juncture Ricardo quit the employment
of his father and began activities on the Exchange on his own behalf which proved to be highly rewarding. As noted by Sraffa the London Times obituary of Ricardo maintains that within a very few years Ricardo had exceeded his father's success on the Exchange.30

The Stock Exchange was a principal source of funds for the Government during the Napoleonic Wars and Ricardo, acting in his capacity as a Loan Contractor, was a party to a number of sizable loans to the British Government. In 1807, Ricardo together with two others (Barnes and Steers) successfully bid on contracting a loan of £14,200,000. Barnes, Steers and Ricardo together with Robarts, Curtis and Co. were the successful bidders on the loan of 1811 which amounted to £12,000,000. The years 1812-1815 saw a practice on the part of the contractors of identical bids with the consequence that Ricardo was involved in each of these quite sizeable loans. The loan of 1812 amounted to £22,500,000. Two loans were negotiated by the government in 1813; the first totaled £27,000,000 while the second was for £22,000,000. A loan in 1814 amounted to £24,000,000 while the largest of the war, £36,000,000 was negotiated in 1815. It was on the last of these loans, in 1815, that he proved to be most successful. In writing to Malthus on 27 June (the Omnium then being quoted at 111/2-13 per cent premium) he remarks: "... I have all my money invested in stock, and this is as great an advantage as ever I expect or wish to make by a rise."31 It is conjectured that Ricardo grossed £1,000,000 on this single contract.32

He began the process of retiring from the Exchange soon after
the negotiation of this last loan. There were no government loans for the years 1816-1818, and Ricardo's unsuccessful bid on the loan in 1819 was the closing act of his business career. Although he was extraordinarily successful on the Exchange—both as a stock jobber and as a Loan Contractor—Ricardo's interests were more diverse than his activities on the London Exchange.

Ricardo... brought up his sons to be country gentlemen, and as for himself had no craving for the bustle of the city and viewed financial success as a means of retirement into the country to the quiet pursuit of his favorite science! When he first went to Catcomb he wrote to Malthus: "I believe that in this sweet place I shall not sigh after the Stock Exchange and its enjoyments."33

But it was not country life exclusively that attracted him from the Exchange. He had no sooner retired from his business pursuits than he entered Parliament as the representative from Portarlington, a typical rotten borough in Ireland. Even prior to his retirement there is evidence of his interest in a seat. As in so many other things, it was James Mill who first urged Ricardo to become an M.P.; and he based his appeal, so characteristically, on Ricardo's command of scientific principles invaluable to the exercise of political power:

I shall address myself to the ambition of Mrs. Ricardo, who has a husband that could so much distinguish himself, if his modesty, or his neglect of distinction would only allow him. That he might be of great use to a favorite science, and to a most important department of practical politics, which altogether depend upon that science, ought to be sufficient motive with him, to improve every hour and every moment, nay to place himself in that situation in which his tongue, as well as his pen might be of use.34
Less than a year later Mill is again writing to Ricardo about a seat in Parliament:

You can have no excuse for not going into Parliament, and doing what you can to improve that most imperfect instrument of government. On all subjects of political economy, you will have no match; and you express yourself on those subjects so correctly, and so clearly, that in a short time you will be a very instructive and a very impressive speaker. Of the innumerable ways in which the Parliament, as at present constituted, is an instrument of misgovernment, you have already no little knowledge; and as soon as you have more leisure for reading, or rather for meditation, the discovery will pour in upon you every day. There is not much difficulty in finding out the principles on which alone good government must of necessity depend; and when all this is as clearly in that head of yours, as that head knows how to put it, the utility in Parliament of even you, in spite of your modesty, would be very great.35

At the outset, Ricardo was characteristically reticent.

... Your parliamentary scheme is above all others unfit for me,—my inclination does not in the least point that way. Speak indeed! I could not, I am sure utter three sentences coherently, and if I attempted it should probably from vexation and disappointment turn by back on the house forever.36

Mill, however, was not deterred. Lamenting the fact that Francis Horner (a political economist of some distinction and friend to both Mill and Ricardo)37 would miss the upcoming session of Parliament due to ill health, Mill writes to Ricardo:

He will be a very great loss—even his absence this winter is grievously to be deplored—when so many foolish, and, I fear, some villainous schemes of finance, will be proposed and listened to. You ought indeed to be in Parliament, and you must at any rate make arrangements for it at the general election.38

Nevertheless, in November of 1816, Ricardo declined an invitation to become a candidate for the vacant seat at Worcester.

One year later, however, in December of 1817, negotiations
for the seat at Portarlington began between Edward Wakefield, a mutual acquaintance of Mill and Ricardo, and the Earl of Portarlington. The Earl was desirous of raising a loan on the security of the Portarlington estates in order to pay off previous sums borrowed on annuities. Wakefield proposed to lend the Earl £10,000 to £20,000 in return for the privilege of nominating a representative for the borough at the going price. Ricardo, who had subsequently expressed an interest in a seat, was offered the vacancy. Initially, however, Ricardo was unacceptable to the Earl as he refused to discuss politics with him. The earl was inclined to return a member who would vote with the ministers, and this Ricardo refused to guarantee. The negotiations came abruptly to an end. On 24 June 1818, Ricardo writes to Malthus:

I believe it is now finally settled that I am not to be in Parliament, and truly glad I am that the question is at any rate settled, for the certainty of a seat could hardly compensate me for the disagreeables attending the negotiation for it.

And on the 27th of June he writes to Trower:

My own endeavors to get a seat in the House have not been attended with success, but I believe that amongst all those who are disappointed, in a similar manner, there is not one more resigned than I am. I could meet with nothing where I should not have a contest, which I was exceedingly unwilling to encounter.

Despite these apparent misgivings on Ricardo's part, it was less than a year later, in February, 1819, that he was eventually seated in Parliament as the representative of Portarlington. This time the negotiations were undertaken by Henry Brougham, a well-known reformer and oppositionist in Parliament:
The terms were that Ricardo should make a loan of between £20,000 and £36,000 against a mortgage on the Portarlington estates, and should pay £4,000 for the seat "secured for four years" (implying the right of re-election in the event of an early dissolution) and in addition "a chance of sitting 7 years" (in case of their being no dissolution and Parliament lasting its full term). There seems to have been some misunderstanding as to whether Ricardo was to receive the maximum rate of interest fixed by Irish law (6 per cent) or by English law (5 per cent). In any event, the loan was of £25,000 and the interest was 6 per cent.44

Ricardo served a total of five years in Parliament before his death in 1823. Edwin Cannan, among others, has pointed out that Ricardo was quite active as an M.P. A total of 126 speeches by Ricardo are recorded in Hansard, mostly on economic subjects, and he served on a total of eight committees.45 It would be during his tenure in Parliament that Ricardo's views on reform would become fully evident.

He was known, as his obituary recounts, as a "moderate oppositionist." Moses Ricardo assesses his brother's record in Parliament in the following fashion:

He was of no party; and at all times advocated such principles as he held to be sound and true, whether on the ministerial or the opposition side, or at variance with both. Attachment to party has generally made that neutral station a place of contempt, and those who have taken it have seldom obtained much consideration. Not so with Mr. Ricardo: his independence was truly appreciated. Not courting popularity, not wanting or seeking anything from either side of the House, he stood aloof, and claimed the respect and admiration of both.46

This characterization of Ricardo, as of "no party," is somewhat misleading. While it is true that Ricardo identified with neither political party, it is also true that, during Ricardo's
tenure as an M.P., party affiliation did not constitute the major
division in Parliamentary politics.

The names of the political parties remained unchanged; but more and more the real division in England came to be between conservative and liberalism. The conservative groups in each of the two parties had more in common with each other than with the left wing elements of their own parties.47

Thus while it is true that Ricardo was neither Whig nor Tory, he was firmly aligned with the liberal faction, or oppositionists, in Parliament. Sraffa reports that during Ricardo's tenure in Parliament (26 February 1819-1823) Hansard has recorded 224 "opposition lists" with Ricardo's name appearing on 167 of them.48 "In a contemporary analysis of the lists of the minorities on 36 questions (selected as being of particular importance) . . . in the Sessions of 1821 and 1822, Ricardo appears in 28—only six members appearing more frequently."49

Ricardo was thus consistently aligned with the opposition in Parliament. His opposition to established policy took several forms. On the general question of political representation, he was aligned with the reformers in advocating an extended franchise, the secret ballot, and the elimination of restraints on free speech and association. He spoke on behalf of the disenfranchised industrial classes. If public policy was ever to reflect the needs of these classes, the system of representation in the House of Commons would have to be reformed. Particularly pernicious was the existence of statutes which limited free speech and assembly. The onset of the Wars with France had prompted the Ministers to pass a number of repressive acts. These statutes, in turn, had a negative impact on
the movement for economic and political reform, the reformers often being viewed as Jacobins even after the cessation of hostilities. Ricardo, together with the oppositionist minority in Parliament, voted consistently against these impositions on personal freedom. One notable exception to Ricardo's record of opposition would appear to be his failure to support the movement for Catholic emancipation.

Various questions of domestic economic policy also occupied his attention in Parliament. He articulated the reform position of "free" trade on such questions as usury laws, the Spitalfields Acts, and the "trucking system." It was on the question of the poor laws, however, that he argued most vociferously. The poor laws had the effect not only of reducing the mobility of labour but of increasing the rate of population growth, of increasing the number of individuals supported at the expense of the public. The cumulative effect of these statutes, then, was to mitigate the incentive to accumulate.

Together with his opposition to the poor laws, two great questions of international trade occupied the remainder of his attention in Parliament—the Bank Restriction of 1797 and the corn laws. On these questions, as on questions of domestic economic policy, he was anti-protectionist. But if the general outline of his "free" trade position is evident in his expressed opinions on the poor laws, it was the Bank Restriction and the corn laws which led him to develop a theoretical rationalization of laissez-faire.

We may now turn to an examination of Ricardo's chief policy
proposals. Underlying all of his concerns over economic policy was his belief that the representational system in Parliament was in need of reform.

**Property Values and Liberal Constitutionalism: The Question of Parliamentary Reform**

The lack of influence of the emerging industrial bourgeoisie in Parliament is apparent from the representational system which prevailed in Britain as of 1815. In general, as will be seen, the system was highly undemocratic, a system which invested the landed aristocracy with enormous political power. The basis of representation was, of course, property—but landed property. Those reformers, like Ricardo, also spoke of a representational system based on property, but of a system which would include the interests of the industrial classes, as well as the interests of the large landowners. The movement for Parliamentary reform emerged primarily as a contest for political power between the two basic propertied classes—the landed aristocracy versus the industrial bourgeoisie.

As of 1815, the British system of representation was quite complicated, too complicated to be fully explained here. There are two basic reasons for this. On the one hand, the United Kingdom, in 1815, was composed of several distinct nations—England, Scotland, Ireland and the principality of Wales. "And the operation of the franchise differed in these three nations from its operation in England; nor was it even the same in Ireland, Scotland and Wales." On the other hand, even the laws and customs which regulated the
election of M.P.'s in England were highly diverse. "The county franchise differed from the borough franchise, and the franchise of one borough from the franchise of another." The result was a welter of differing representational schemes, too subtle in their complexities to be fully catalogued.

But one aspect of the various representational schemes stands out—the influence of the landed aristocracy in returning members to Parliament. In Scotland, for example, a nation of approximately 2,000,000 inhabitants and entitled to return forty-five M.P.'s, the influence of the landed aristocracy was quite great.

According to the principle obtaining throughout the United Kingdom they were divided into the representatives of the rural constituencies, the "counties," and the representatives of the urban constituencies, the "burghs." The county representatives were returned to Parliament by a body of not more than 2,405 electors. In the counties the franchise was confined to freeholders whose land was liable to a tax of 45s on lists drawn up at the close of the thirteenth or beginning of the fourteenth century. The electors might either be freeholders, or tenants holding immediately of the Crown. And the number of county electors in Scotland would have been even more restricted had not the landlords devised means to create in their own interest a certain number of tenants who, while their nominal status was that of Tenants-in-chief of the Crown, were in reality their dependents. The representatives of the Scottish burghs, the royal burghs, represented, on the other hand, a body of 1,220 electors. Of these, however, only thirty-three, the members of the corporation of Edinburgh, directly elected their representative. The other elections were indirect. The burghs were combined in groups of four or five, and each group sent a representative to Westminster.

Thus, as Halévy points out, "only by a legal fiction could these forty-five members be considered to represent two million Scotsmen." Nor was the situation in Ireland much better. Certain borough seats,
such as Ricardo's own seat, were for sale, and Catholics were system-
atically excluded from electoral participation. Halevy estimates
that, of the thirty-four urban constituencies in Ireland, only nine
or ten could be considered as "open," that is, "constituencies where
the electorate was to some extent free and conscious of its power."\(^60\)
And in the rural constituencies where, as in England, the franchise
belonged to all forty-shilling freeholders, the electors were basic-
ally "bogus freeholders," the creation of the landlords, who regarded
the exercise of the franchise as a sort of feudal due or corvée
attached to the usufruct of the soil. As a general rule they voted
as their landlords directed.\(^61\) Thus despite . . . [the fact that]
the electorate was more numerous than that of the Scottish boroughs,
and the control of the aristocracy was perhaps somewhat less,\(^62\) the
practice of representation in the counties and boroughs of Ireland
was not dissimilar from that practiced in Scotland. The aristocratic
interests prevailed on the representational question.

Wales, on the other hand, was relatively democratic. But even
here the influence of the landed aristocracy was great: "'The influence
which prevails,' wrote Oldfield, a severe critic of the established
system, 'is not the produce of corruption, but arises from the popu-
ularity and hospitality of men of considerable property.'\(^63\)

In England itself, the mode of representation varied widely
from one constituency to the next. "Only six or seven of the forty
English counties are classified by Oldfield as independent."\(^64\) In
the boroughs, the representational systems varied from ones with a
broad, almost democratic, franchise to others where the franchise was very restricted. The most restrictive franchises occurred in the "burgage tenure" boroughs and the "corporation" boroughs. In the "burgage tenure" boroughs, "if one single owner managed to gather into his hands all the burgage holdings, there was but one elector for the borough, which then became in the strictest sense of the term the property of an individual, a proprietary borough." The "corporation" boroughs were little better. These were small constituencies "where the voters often did not exceed ten and very rarely rose above a hundred," where the voters "were inevitably exposed to illicit pressure." And the poorer the voters, the more incapable they would be of resisting it.

The franchise in 1815 was therefore very limited. The middle classes were not totally unrepresented. "Over fifty bankers, merchants, and businessmen of all kinds were members of the House of Commons in 1818." But they were definitely under-represented, the major influence in Parliament being the landed aristocrats and the Crown:

Obviously the system was in need of reform, and public opinion had already begun to press for it. The south of England was over-represented, while the north lacked adequate representation. The agricultural interest was too strongly entrenched, while the industrial interest was insufficiently safeguarded. The list of boroughs needed revision and the number of electors might very well have been increased. The important question was whether the electorate as constituted in the opening years of the Nineteenth century would oppose an obstinate resistance to the demands of a new era and a transformed civilization.

Opposition to this system of representation found its adherents in Parliament, like Ricardo, but, by 1815, the major source of
opposition to the unreformed Parliament was still from without. The first successful effort to reform the basis of representation did not occur until 1832 and, in the interim, the reform movement suffered under highly repressive statutes which limited free speech and association as well as the activities of the opposition press. The Six Acts, as they are commonly known, then, were an integral part of the British representational system. If the interests of the industrial classes were under-represented in Parliament, their voices were restricted by the existence of these statutes. To reform the system of representation would require, above all, that the voices of reform enjoy a latitude of action denied to them by the Six Acts.

Ricardo’s opposition to the system of representation prevailing in Britain was unqualified. Freedom of speech and association should be guaranteed. The press should be free to reflect unpopular opinions. The secret ballot should be employed to guard against corruption. And, the franchise should be extended to reflect the interests of the new class of proprietors, the proprietors of industrial capital. Only in this fashion, according to Ricardo, could "good government" be assured.

Ricardo’s basic argument takes, what is by now, the familiar "checks and balance" approach:

... In every country of the world some check, more or less strong, exists on the will of the sovereign, even in those Governments which are supposed to be the most despotic ... .

The only difference, in this point, between the Government
of countries which are called free and those which are called arbitrary, is the organization of this check, and in the facility and efficacy with which it is brought to bear upon the will of the Sovereign. In England the Monarch’s authority is checked by the fear of resistance, and the power of organizing and calling forth this resistance is said to be in the aristocracy and the people, through the medium of the two Houses of Parliament.

It is undoubtedly true that the Monarch would not long venture to oppose the opinion decidedly expressed by the House of Commons, and therefore he may be said to be checked and controlled by those who appoint the House of Commons. All great questions are decided in the House of Commons; the measures to which the other House has given its sanction. Nor, when the constitution of that House is considered, is such opposition necessary, for the House of Commons is not appointed by the people, but by the Peers and the wealthy aristocracy of the country . . . . What is the consequence of this?—A compromise between the aristocracy and the monarchy; and all the power and influence which the Government gives are divided between them . . . .

If . . . we could get a House of Commons chosen by the people, excluding all those, whether high or low, who had interests separate from the general interest, we should have a controlling body whose sole business and duty it would be to obtain good government. It is not denied that, in innumerable instances, the interest of the aristocracy and that of the people will be the same, and therefore many good laws and regulations would be made if the aristocracy were to govern without control. The same may be said of the Monarch, but in many important instances they will also be opposed, and then it is that we shall look for good laws and good government. A reform in the House of Commons, the extension of the elective franchise to all those against whom no plausible reason can be urged that they have, or suppose they have, interest contrary to the general interests, is the only measure which will secure liberty and good government on a solid and permanent foundation . . . . 69

For Ricardo, therefore, a properly constituted House of Commons would be the most effective check on the actions of the government—a reformed House of Commons, representing the wishes of the people, that, together with the aristocracy, could call forth resistance to the Crown. The Parliament as presently constituted,
however, did not offer that check because of the fact that the interests of the aristocracy were represented not only in the House of Lords, but in the House of Commons as well. "...The House of Commons as at present constituted does not afford that check—... it really represents the Aristocracy, or rather a narrow oligarchy, and not the people." The result of this malrepresentation in the House of Commons was an alliance between the aristocracy and the Crown that resulted in the promulgation of public policies that restricted the "freedom" of the people; in other words, public policies that restricted the freedom of action so necessary to the functioning of a market economy. Without the freedom to buy and sell commodities—commercial produce and the instruments of production—governed only by the price mechanism of the market, the expansion of the industrial sector would be severely retarded. The answer, for Ricardo, was to reform the House of Commons to reflect the interests of the industrial bourgeoisie.

If in the long run, the most effective check on the actions of the government was a reformed House of Commons, a more immediate threat to the freedoms of the people consisted in the efforts of the Ministers to limit dissent. Ricardo spoke unsuccessfully in Parliament against the Seditious Meetings Prevention Bill which was eventually enacted on 13 December, 1819. By limiting the rights of the people to freely associate, the guarantees of free speech were, to that extent, encumbered. Men must be free to associate for the purpose of redress of grievances. Without that guarantee no effective
check could be said to exist on the will of the sovereign. An unreformed House of Commons offered no effective check; without the freedom of association those who found no effective voice in the House of Commons would be reduced to having no voice at all.

In a letter to Trower, Ricardo articulates a position befitting the most radical of libertarians:

... A Government is free in proportion to the facility with which people can overthrow it. What security for freedom should we have if no meeting, larger than a parish meeting, was legal. Such meetings might indeed talk of their grievances, but their talking would be no motive to their rulers to alter their measures, but might indeed be an inducement with them to get rid of such meetings altogether. The fear of insurrection, and of the people combining to make a general effort are the great checks on all governments—these we might have through the means of a reformed House of Commons—now we have them by the privilege which the people have of meeting—I cannot consent to weaken the latter check without having some security for the obtaining of the former, and even if we did obtain it, I am doubtful how far it might be safely accepted as a substitute for the privilege which we now enjoy.  

Nor was Ricardo unmindful of the deleterious effects of similar attempts on the part of the Ministers to gag the opposition press. In a letter to James Mill, Ricardo reacts favorably to Mill's treatment of the subject in his "Liberty of the Press," fearing only that perhaps Mill goes too far in defending the right of the press to exhort resistance:

... The principles you lay down naturally follow from those you had before established in your article on Government, and you clearly shew that without a liberty almost unbounded for the Press, one of the most important securities for the peoples interests being attended to by their Governors would fail, and that without this security all others would fail.
But for Ricardo the most important task was to reform the House of Commons itself; to insure the representation of the people in that body would result in the most effective check on the actions of the government. And to this end Ricardo advocated the introduction of the secret ballot and the extension of the franchise. The practice of influencing the votes of "freeholders," on which we have had occasion to comment above, was well known by Ricardo. And to limit this undue influence of the aristocracy, Ricardo proposed the secret ballot:

... That which establishes the ballot, appears to me to offer complete security against those evils which flow from the influence of power. If voting took place by ballot, all influence now practiced on voters would, in a great measure, cease; for, to what purpose would you threaten a man for the vote he should give, or how could you punish him for it when given, if by the regulation you were absolutely precluded from knowing for which candidate he voted? Establish the ballot, and every elector is from that moment in possession of a real and not an imaginary privilege. 75

And in addition to the device of the secret ballot, Ricardo advocated the extension of the franchise. On this point Ricardo stopped short of the most radical of the reformers who advocated a plan of universal suffrage. "My own opinion is in favour of caution, and therefore I lament that so much is said on the subject of Universal Suffrage." 76 But against those who, like Trower and Malthus, feared the extension of the franchise on the grounds that a broad franchise would likely result in the interference with the rights of property, Ricardo retorted: "You are I fear surrounded by Anti-reformers—wealthy alarmists who have in consequence of the French Revolution . . . associated the idea of insecurity of property with
the exercise of popular privileges." 77

On the contrary, Ricardo felt that the extension of the franchise was consonant with the rights of property. But it is clear that when Ricardo speaks of property, his definition is broader than the privileges associated with the landed interests of the aristocracy. Ricardo is a harbinger of the interests of the new forms of property associated with an industrial economy, and those interests could only be well served through an extension of the franchise. By the extension of the franchise to all those who had a vested interest in the security of the industrial system who, in other words, were dependent for their livelihood on the maintenance of that system and its prerogatives—the profits of capital—the interests of this new class of proprietors would be insured.

Nowhere are these relationships expressed more clearly than in Ricardo's paper "Observations on Parliamentary Reform." Nothing should be feared of those people who have a vested interest in a system of production in which the livelihood of the class of labourers is tied directly to the continued well being of the capitalist class:

So essential does it appear to me, to the cause of good government, that the rights of property should be held sacred, that I would agree to deprive those of the elective franchise against whom it could justly be alleged that they considered it their interest to invade them. But in fact it can only be amongst the most needy in the community that such an opinion can be entertained. The man of small income must be aware how little his share would be if all the large fortunes in the kingdom were equally divided among the people . . . . Whatever might be his gains after such a principle had been admitted would be held by a very insecure tenure, and the chance of his making any future gains would be greatly diminished; for the quantity of employment in the
country must depend, not only on the quantity of capital, but upon its advantageous distribution, and, above all, on the conviction of each capitalist that he will be allowed to enjoy unmolested the fruits of his capital, his skill, and his enterprise. To take from him this conviction is at once to annihilate half the productive industry of the country, and would be more fatal to the poor labourer than to the rich capitalist himself.

I am convinced that an extension of the suffrage, far short of making it universal, will substantially secure to the people the good government they wish for, . . .; at the same time, I feel confident that the effects of the measure which would satisfy me would have so beneficial an effect on the public mind, would be the means of so rapidly increasing the knowledge and intelligence of the public, that, in a limited space of time . . . we might, with the utmost safety, extend the right of voting for members of Parliament to every class of the people.

It is thus in the context of the interests of the new forms of property that had come into being, and of the classes associated with these new forms of property, that Ricardo argued for the secret ballot, an extended franchise, and more frequent elections. It was likewise on behalf of these classes that Ricardo argued against Ministerial attempts to limit dissent. England was confronted with a political apparatus which increasingly did not represent the dominant forces of the economic system. The basis of the economic structure had changed without a corresponding change in the basis of interest articulation in Parliament. A reform of the political process was imperative if the dynamism of the new forms of productive enterprise was to be sustained. An unreformed Parliament could not co-exist with the new social forces engendered by the rise of an industrial economy.
If, from Ricardo's perspective, the British Parliament was unrepresentative of the interests of the industrial sector of the economy—increasingly, the dominant mode of economic activity—the results of this mal-representation were apparent in the policies promulgated by that body. Legislation reflected the predominant interests associated with a rural agricultural society at a time in history when the basis of economic activity was transforming England into an urban industrial society. An unrepresentative Parliament promulgated policies that made sense only in an earlier bygone era. Public policy did not reflect the interests of the industrial sector of the economy; the requisites of an industrial order were blocked by established public policy.

The poor laws, as we have had occasion to note, were the chief obstacle to the formation of a domestic market economy in Britain. A domestic market in money and in land existed long before the creation of a market in labour. The immobility of labour, therefore, acted as a check on the formation of an industrialized economy, that is, a truly capitalistic economy. "No market economy was conceivable that did not include a market for labour . . . ." 79

The modus operandi of a capitalistic economic order is the "free" market. There must be markets not only for commercial products but for the factors of production as well. That is to say, production is no longer characterized by decentralization, the undifferentiated
ownership of the means of production, the labour of skilled artisans, and the production of "use values;" a system, in short, which does not necessitate markets in land, labour, and capital. Production in a capitalistic system, to the contrary, is a relatively centralized system of mass production characterized by the differentiated ownership of the means of production, the division of labour, and the production of "exchange values;" a system which relies on what Polanyi calls the "commodity fiction" of land, labour, and capital. The means of production in this system possess the same quality as any other commodity—they are for sale. And they must be for sale by the very nature of a system which is characterized by the production of "exchange values," that is, the accumulation of wealth. It is the incentive to accumulate which makes possible the centralization of the means of production and the division of labour necessary to a system of mass production. But the ability to accumulate depends, in turn, on the fluidity of the factors of production—in the case of labour, its mobility. Labour must be geographically and occupationally mobile if the instruments of production are to be centralized. And this mobility can be assured only through the price mechanism of the "free" market.

The mobility of labour is thus an essential facet of a capitalist economic structure. Labour power must be for sale and its allocation governed by the relationships of supply and demand on the market. But the formation of a market in labour was forestalled in England by the operation of the poor laws. In actuality,
prior to 1795, three separate statutes governed the operation of the national labour market. The Statute of Artificers (1563) dealt with the employed, regulating wages and apprenticeships. "It can be said that for . . . two and a half centuries . . . the Statute of Artificers laid down the outlines of a national organization of labour based on the principles of regulation and paternalism." The Statute of Artificers was supplemented by the poor laws of 1536 and 1601. "The Poor Law of 1601 decreed that the able-bodied poor should be put to work so as to earn their keep; the burden of relief was put squarely on the parish, which was empowered to raise the necessary sums by local taxes or rates." Because the administration of the Poor Law was the responsibility of the local areas, the parishes, however, a wide difference existed in the local provisions provided for the poor. The end result, as might have been expected, was that the well-kept parish was inundated with paupers. To protect the well-kept parish the Act of Settlement and Removal was passed in 1662 which required individuals to live in their own parish. Individuals found living outside of their parish could be forced by the local parish administrators to leave, regardless of their employment status.

The cumulative effect of these statutes was the immobilization of labour. The mobility of the employed was restricted by the regulation of apprenticeships and wages; that of the unemployed by the Act of Settlement and Removal. Under the mounting pressure of the industrial interests these statutes either slowly fell into
disuse or were repealed so that, by 1795, with the partial repeal of the Act of Settlement and Removal, England was on the verge of the conditions necessary to the formation of a national labour market. But, paradoxically, it was in that same year that a new practice of Poor Law administration was introduced which would prevent the very formation of a national labour market which was the intent of the reforms. The Speenhamland Law, as it was commonly known, "introduced no less a social and economic innovation that the 'right to live'..." The Speenhamland system went beyond the Elizabethan Law which provided relief only to those who could obtain no work by introducing a system of relief in aid-of-wages. "The extension of outdoor relief, the introduction of aid-in-wages supplemented by separate allowances for wife and children... meant a dramatic re-entry in regard to labour of that same regulative principle that was being rapidly eliminated in regard to industrial life as a whole." The acceptance of the Speenhamland scale at the very moment when the encumbering attributes of previous labour legislation had been largely overcome is thus an anomaly. Maurice Dobb has remarked in this regard:

Once the Laws of Settlement had been repealed and the older provisions for regulation of wages by the local justices had fallen finally into disuse...[the] conditions [for a national labour market] were approximately fulfilled. ...The Speenhamland system...[was], in the period following the Napoleonic Wars, the only serious obstacle to the attainment of that perfectly elastic supply of labour to industry that was so much desired. Apart from this, with the
coincidence of enclosures and the ruin of village handicrafts to cause extensive rural overpopulation, England was exceptionally well placed in the possession of that favourable condition of the urban labour market which industrial capitalism required.  

By immobilizing the supply of labour at a time when the enclosures had divested the common people of their former status, the Speenhamland system actually contributed to pauperism. A new class of employers was being created, but no corresponding class of employees could constitute itself. A new gigantic wave of enclosures was mobilizing the land and producing a rural proletariat, while the "maladministration of the Poor Law" precluded them from gaining a living by their labour.  

The result was widespread poverty, masses of individuals living on the public dole, and an industrial sector deprived of labour. The logical answer, to the reformers, was the abolition of the poor laws and the substitution of the "free" market. It was through the device of the market that the reformers sought to rectify the social and economic consequences of the poor laws.

*   *   *

If the poor laws were an example of the malrepresentation of industrial interests in parliament and were, thus, an outstanding example of the need for parliamentary reform it was because, from the point of view of the reformers, such legislation interfered with the ability of the capitalist class to order social and economic life in Britain. The operation of the poor laws, in other words, inhibited the formation of a national market in labour. The reform position, that economic activity be organized through the operation of markets, was no less than a call for a reordering of
power relationships in British society. Parliament had to be reformed in order that the organ of state power could be used to create a market society, a society in which human activities are molded by the power relationships inherent in the institution of the market. The call for the establishment of a "free" market was a call for the establishment of a set of social conditions that would serve to fulfill the *raison d'etre* of the industrial bourgeoisie, the accumulation of wealth. And if the "free" market was the *sine qua non* of the accumulation of wealth, it was because, in the relationships of the market, the power of the capitalish class to order social and economic life was without question.

It was within this context that Ricardo argued against the poor laws. The partial repeal of the Act of Settlement and Removal had created the conditions necessary for a national market in labour. By supporting the working population at public expense the needs of the industrial sector, to that extent, could not be met. From Ricardo's perspective, not only did the poor laws limit the supply of labour to industry, by inhibiting the incentive to work, these statutes also had a negative impact on the process of capital accumulation. The poor laws, in other words, were inimical to the interests of the capitalist class. The interests of the industrial sector demanded a "free" market in labour; in other words, a system of social control in which the class of capitalists could exercise a preponderant influence.

Ricardo's perspective on this question, as well as his
perspective on the question of the corn laws, as we shall see, was informed by Malthus' *Essay on Population*. Ricardo accepted the general proposition that the rate of population growth tended to exceed the rate of capital accumulation and that the most effective check on the growth in population was the shortage of food. From this general perspective Ricardo reasoned that the poor laws posed a dual liability to the process of capital accumulation and thus exacerbated the condition of the mass of men. "These rates," remarked Ricardo, "are a yawning gulph in which all that is valuable will be ultimately swallowed."  

First, the support of individuals at the public expense was tantamount to a diversion of funds from what might otherwise be productive expenditures to outlays that contributed little or nothing to capital accumulation. This line of reasoning he even extended to the practice of supporting individuals through private charity. In a letter to Malthus, of 3 January 1817, Ricardo remarks on the practice of providing work relief with funds raised through private donations:

I want to hear your opinion of the measures lately adopted for the relief of the poor. I am not one of those who think that the raising of funds for the purpose of employing the poor is a very efficacious mode of relief, as it diverts those funds from other employments which would be equally if not more productive to the community. That part of the capital which employs the poor on the roads for example cannot fail to employ men somewhere and I believe every interference is prejudicial.

Secondly, in addition to being an essentially unproductive expenditure of revenue, the poor laws encouraged an excessive rate
of population growth. For Ricardo, the rate of population growth was primarily a function of the means of subsistence. Any provision of the necessaries of life that was not tied directly to the demand for labour in the market place meant, of necessity, that the rate of population growth would exceed the rate of accumulation, the means of support. Universal privation was the logical outcome of the rationale behind the poor laws:

... By engaging to feed all who may require food you in some measure create an unlimited demand for human beings, and if it were not for the bad administration of the poor laws—for the occasional hard heartedness of overseers and the avarice of parishes which in a degree checks their civil effects, the population and the rates would go on increasing in a regular progression till the rich were reduced to poverty, and till there would no longer be any distinction of ranks ... .

Thus, from Ricardo's perspective, the effect of the poor laws on the rate of capital accumulation may be described as a negative cycle. If, on the one hand, funds were diverted from the productive process, thus reducing industrial productivity, the concomitant effect was an increase in the rate of population growth. And if the poor laws enhanced the rate of population growth, the result would be even greater numbers on the public dole and the further diversion of funds from the productive process for their support. What was clearly required, according to Ricardo, was a check on the rate of population growth, which end could be achieved most effectively by regulating the rate of population growth by the demand for labour in the market place. "The population can only be repressed by diminishing the encouragement to its excessive
increase,—by leaving contracts between the poor and their employers perfectly free, which would limit the quantity of labour in the market to the effective demand for it.\textsuperscript{90}

To this end Ricardo advocated the establishment of savings banks. He was an opponent, as an M.P., of a more moderate policy proposal which would have discontinued the practice of aid-in-wages but continued to support the children of the poor.\textsuperscript{91} Ricardo, instead, favored the gradual abolition of the poor laws, substituting savings banks in their place.\textsuperscript{92} By refusing to support any but the "aged and infirm and under some circumstances, children,"\textsuperscript{93} the public burden of relief could be reduced and funds channeled into the productive process. And savings banks, by inducing the poor to lay aside part of their weekly income, would provide a guarantee against the occasional misfortune of a business downturn. Instead of going on the rates, a man should rely on his savings during those periods of occasional unemployment:

\ldots The great object should be to teach the labouring classes that they must themselves provide for those casualties to which they are exposed from occasional variations in the demand for particular manufactured goods, and which should not be the subject of legislation. A man's wages should, and would on a really good system, be sufficient not only to maintain himself and family when he is in full work, but also to enable him to lay up a provision in a Savings Bank for those extraordinary calls [to which he is subjected].\textsuperscript{94}

Two further benefits could be expected to flow from the establishment of a system of savings banks. First, funds deposited in these institutions could be invested, through loans, in the pro-
ductive process thus enhancing productivity and the process of capital accumulation. Second, and more importantly, savings banks would check the deleterious effect of the poor laws on the rate of population growth. "They will tend to introduce economy and forethought amongst the poor, which may in time check the propensity to a too abundant population, the great source from whence all the miseries of the poor flow in so profuse a stream." By offering incentives to save, that is, by reducing expendible income, savings banks would act as a check on the rate of population growth. This, from Ricardo's perspective, naturally followed from his understanding of the Essay on Population. As population growth was thought to be primarily a function of expendible income, anything which reduced the level of expendible income would reduce the rate of population growth. Savings banks were such an institution.

Savings banks were therefore, from Ricardo's perspective, an institution peculiarly well suited to check the adverse consequences of the poor laws on the process of capital accumulation. The call for the abolition of the poor laws and the creation of a national system of savings banks was an appeal for the creation of a market economy in labour--a "free" market in human labour. But it was an appeal, furthermore, that the dynamics of British society be transformed through the institution of the market, in other words, by the prerogatives of the capitalist class and of the raison d'être of that class, the imperative of accumulation. The poor laws had to be abolished because the administration of those laws was the
direct by-product of the control of the political process by those who did not share the interests of the industrial bourgeoisie. The question of the poor laws was as much a question of political power as a question of economic reform. They were synonymous.

* * *

If the poor laws were an example of the need for reform of the domestic economic structure, the Bank restriction of 1797 and the corn laws were similar examples of the need for reform of economic policy at the level of international trade. Both the Bank restriction and the corn laws were viewed by the reformers as restrictions on "free" trade; together, they amounted to state interference with the potential ability of the industrial bourgeoisie to achieve a dominant role in the organization of social and economic life in Britain. The Bank restriction, by declaring British currency to be inconvertible with gold, had contributed to a depreciation in the value of that currency; a depreciation, in other words, of capital held in the form of money. The corn laws, from the point of view of the reformers, had raised the costs of production in the industrial sector, thereby reducing profits. Both policies injured the capitalist class. Anything that interfered with accumulation interfered with the socio-economic relationships necessary to the existence of that class. And it was in the arguments marshalled against the Bank restriction and the corn laws, both of which had encumbered the process of capital accumulation, that the concept of "free" trade, as a policy uniquely suited to
the interests of the industrial bourgeoisie, found its theoretical expression. It was in the language of the new science of political economy that the pursuit of political power by the industrial bourgeoisie would find its rationale.
FOOTNOTES


4Ibid.

5Ibid.

6Ibid.

7Ibid.

8Ibid.


10Ibid., p. 29.

11Ibid., p. 31.

12"Usually special private acts of Parliament were necessary to enclose the open fields and the common lands. The chief landowners of a parish would prepare a bill calling for parliamentary commissioners to survey the parish lands and to redistribute them in individual holdings. After examination by a parliamentary committee the bill would be submitted to Parliament. With the passage of the bill those who had scattered strips in the open fields and rights in the common land by indisputable title would be given single allocations of land in the parish. Very small landowners were usually given money payments in return for the surrender of their titles. As the landlords controlled Parliament the enclosures progressed steadily from about 1750 to 1850, when all the open fields had been swallowed up. Between 1700 and 1750 about 100 enclosure acts were passed; between 1750 and 1800 there were about 2,500. In the eighteenth century nearly 3,000,000 acres of open fields and over 1,000,000 acres of common waste land were enclosed. A General Enclosure Act of 1801 made the whole process
The first Navigation Act was passed as early as 1381, when an attempt was made, not very successfully, to develop a navy by requiring merchants to employ English shipping. The patriotic outburst of the Elizabethan period, coinciding with a spirit of maritime enterprise and great expansion of trade, did much more to stimulate the formation of a navy. The Navigation Acts of 1651 and 1660, however, exercised great influence in developing England's maritime power, in that they crushed the Dutch carrying trade. Their economic aspect was twofold: on the one hand, they benefited ship-owners and merchants by raising prices and rates; on the other, they irritated consumers and shippers (who would either have employed the Dutch carriers or benefited by their competition with the English), and they offended the colonists by setting up monopolies in their trade . . . ." G. Armitage-Smith, The Free Trade Movement and its Results, p. 34.
25 Ibid., p. 35.


27 John R. McCulloch, The Life and Writings of Mr. Ricardo cited by Piero Sraffa, ed., Works and Correspondence, X, 35, footnote 4.


30 "Addenda to the Memoir of Ricardo," op. cit., p. 68.


32 "Addenda to the Memoir of Ricardo," op. cit., p. 84.

33 Ibid., p. 90.


37 Horner was one of the original founders of the Edinburgh Review, an oppositionist quarterly in 1802. He was also an M.P., and he and Ricardo were to share the same view on the Bank Restriction of 1797; both were opposed to the restriction on the convertibility of bullion and notes blaming the inflation on this public policy. See Chapter III.


39 Wakefield was Ricardo's land agent. Wakefield had been approached by an agent of the Earl of Portarlington regarding the seat in Parliament. The Earl's agent, however, demanded a person who would vote with the Ministers and when Wakefield, on behalf of Ricardo, refused, the negotiations came to an end. "The fact, noted by Wakefield, that the Earl's agent (N. Kirdland) was cousin of Charles Arbutnot, Patronage Secretary in the Government suggests that it was he, even more than Lord Portarlington, who was anxious to secure the return of a ministerialist." "Introduction to the Speeches in Parliament," Ibid., V, xvi.
This attitude on the part of Ricardo was entirely to be expected as he had publicly rebuked two policies with which the Ministers were closely identified—the Bank Restriction of 1797 and the Corn Laws of 1815. For a detailed examination of the divisions between Ministers and Oppositionists during this period see S. Maccoby, English Radicalism, 1786-1832: From Paine to Cobbett (London: George Allent Unwin Ltd.) Chaps. 14-21.


Brougham would later become the chief architect of the reformed Parliament. "Henry Brogham . . . was the very incarnation of the new age of 'machinery and the march of the mind.' He was closely connected with the Whig leaders and with the Edinburgh Review. No Whig Cabinet of 1830 could have been formed without him." G. M. Trevelyan. A Shortened History of England (Baltimore: Penguin Books, 1960), p. 474.


Goldwin Smith, A History of England, p. 561. Smith's account continues: "The conservatives usually included the land­owning aristocrats and gentry who wanted as little change and as few new ideas as possible. The liberal groups usually included those who were sympathetic to the middle class point of view and who understood much more of the meaning of the economic revolutions in industry and agriculture than the old line Tories and Whigs . . . ." Ibid.

The record of Ricardo's votes is necessarily incomplete. At that time (and until 1836) only the numbers in divisions were recorded officially, while the names were ignored. On questions of special interest, however, it was usual for members of the opposition to give their list to the reporters, thus securing publication of their own names in the newspapers and in Hansard." "Introduction to the Speeches in Parliament," Piero Sraffa, ed., Works and Correspondence, V, xxi.

Ibid.
His first recorded vote in the House (on 2 March 1819) was in support of Mackintosh's motion for reducing the number of offenses subject to capital punishment; and he voted again for similar motions on 23 May and 4 June 1821 and 21 May 1823. He also voted for Bennet's motions for the abolition of punishment by flogging (30 April and 7 July 1823). Throughout the special session called after Peterloo [an insurrection demanding an end to the corn law legislation and universal suffrage] in 1819 he voted against the measures known as the Six Acts; in addition to speaking against one of them; and later (on May 8, 1821) he voted for the repeal of another, the Blasphemous and Seditious Libels Act. He supported Sir Francis Burdett's motion, on 16 May 1821, for an investigation of the Peterloo massacre. He voted against its continuance on 8 July of the same year and on 12 May, 1823; and he seconded Hume's motion for abolishing the office of Lord-Lieutenant of Ireland on 25 June 1823. On foreign affairs he voted for Mackintosh's motion (21 February 1821) on the action of the Powers of the holy Alliance with respect to the revolution in Naples; and for Lord W. Bentinck's motion (21 June 1821) concerning the affairs of Sicily; and for Hume's motion (14 May 1822) on the state of the Ionian islands where martial law had been proclaimed. He voted against the Foreign Enlistment Bill (on 3 and 10 June 1819) and against the renewal of the Alien Bill (on 7 July 1820 and again on 1 July 1821)." Ibid.

Ricardo's name does not appear on the Catholic Emancipation division. Whether this is due to a mistake in the "division list," as Sraffa suggests, or whether there was a private understanding between Ricardo and the Earl of Portarlington on this question is uncertain. Ibid.

Ricardo was contemptuous of the usury laws as they infringed on those who wished to raise money: "Mr. Ricardo argued, that money ought to be placed on the same footing as any other commodity. The lender and borrower ought to be allowed to bargain together, as freely as the buyer and seller did when goods were to be disposed of."

See his speech on the Usury Laws Repeal Bill, 17 June 1823, Ibid., p. 323.

He likewise found occasion to speak against the Spitalfields Acts, which gave power to the magistrates of London, Westminster and Tower to fix the wage rates of journeymen silk weavers, and which Ricardo opposed as a restriction on the freedom of trade and of labour: Mr. Ricardo could not help expressing his astonishment that, in the year 1823, these acts should be existing and in force. They were not merely an interference with the freedom of trade, but they cramped the freedom of labour itself. Such was their operation, that a man who was disposed to embark in the trade could not employ his capital in it in London;
and as it might be inconvenient, in many instances to carry that capital out of London, the trade was necessarily cramped and fettered.


54 A statute prohibiting the "trucking system" also drew Ricardo's ire. The "trucking system" was a device on the part of manufacturers to reduce their labour costs by remunerating labourers in the form of provisions or other commodities. On a petition brought by Mr. Littleton on behalf of the miners, iron-makers, and coal-masters of Dudley, "praying that the house would enjoin a more strict observance of the law," Ricardo replied that

... [He] thought it impossible to renew so obnoxious an act. Mr. Owen prided himself upon having introduced the provision system. He had opened a shop at New Lanark, in which he sold the best commodities to his workmen cheaper than they could be obtained elsewhere; and he was persuaded that the practice was a beneficial one.


56 Ibid., p. 116.
57 Ibid., p. 122.
58 Ibid., p. 116.
59 Ibid.
60 Ibid., p. 118.
61 Ibid., p. 120.
62 Ibid., p. 119.
63 Ibid., p. 122.
64 Ibid., p. 123.
65 Ibid., p. 134.
66 Ibid., p. 139.
67 Ibid., p. 145.
68 Ibid., p. 147.
70 Letter to Trower, 27 June 1818, Ibid., VII, 273.
71 See his speech on the Seditious Meetings Prevention Bill, 6 December 1819, Ibid., V, 28.
72 Letter to Trower, 12 November 1819, Ibid., VIII, 133.
73 "... The Newspaper Stamp Duties Act imposed a four-penny stamp tax on all periodical publications whether they were newspapers or not. It was hoped that this law would make it difficult for the poor to obtain papers or pamphlets of any kind and impossible for most of the radical press to carry on under the increased cost of publication." Goldwin Smith, A History of England, p. 556.
74 Letter to Mill, 14 October 1821, Piero Sraffa, ed., Works and Correspondence, IX, 102.
75 David Ricardo, "Defence of the Plan of Voting by Ballot," Ibid., V, 510.
77 Letter to Trower, 27 June 1818, Ibid., VII, 273.
80 Ibid., p. 87.
81 Ibid.
82 Ibid., p. 78.
83 Ibid., p. 79. "The justices of Berkshire, meeting at the Pelikan Inn, in Speenhamland, near Newbury, on May 6, 1795, in a time of great distress, decided that subsidies in aid of wages should be granted in accordance with a scale dependent upon the price
of bread, so that a minimum income should be assured to the poor irrespective of their earnings. The magistrates' famous recommendation ran: When the gallon loaf of bread of definite quality shall cost 1 shilling, then every poor and industrious person shall have for his support 3 shillings weekly, either procured by his own or his family's labour, or an allowance from the poor rates, and for the support of his wife and every other of his family, 1 shilling, 6 pence; when the gallon loaf shall cost 1/6, then 4 shillings weekly, plus 1/10; on every pence which bread price rises above 1 shilling he shall have 3 pence for himself and 1 pence for the others.' The figures varied somewhat in various counties, but in most cases the Speenhamland scale was adopted. . . . Although commonly called a law, the scale itself was never enacted. Yet very soon it became the law of the land over most of the countryside, and later even in a number of manufacturing districts . . . ."

Ibid., p. 78.


86 "... His proposition then is 'that population will increase with a demand for labour, and with the means of supporting the labourers'—a proposition that cannot be controverted." David Ricardo, Notes on Malthus's Principles of Political Economy, Piero Sraffa, ed., Works and Correspondence, II, 234.

87 Letter to Trower, 24 February 1817, Ibid., VII, 135.


89 Letter to Trower, 27 January 1817, Ibid., p. 125.

90 Ibid.

91 See his speeches on the Poor Rates Misapplication Bills, 25 March 1819 and 17 May 1819, Ibid., V, 1 and 6.

92 See his speech on Savings Banks, 18 Feb. 1822, Ibid., 128.

93 Letter to Trower, 26 January 1818, Ibid., VII, 248.

94 Ibid.

DAVID RICARDO AND THE BULLION CONTROVERSY: THE PRINCIPLES OF FREE TRADE ARTICULATED

Practical need, egoism, is the principle of civil society, and is revealed as such in its pure form as soon as civil society has fully engendered the political state. The god of practical need and self interest is money. (Karl Marx. On the Jewish Question.)

By possessing the property of buying everything, by possessing the property of appropriating all objects, money is thus the object of eminent possession. The universality of its property is the omnipotence of its being. Money is the pimp between man's need and the object, between his life and his means of life. But that which mediates my life for me, also mediates the existence of other people for me. (Karl Marx. The Economic and Philosophic Manuscripts.)

The Bullion controversies arose out of the financial practices of the Bank of England attendant to the Napoleonic Wars. The lengthy duration of these wars against France (1793-1815) encompassed two distinct "periods" in British economic history. The first period, characterized by the suspension of specie payments by the Bank of England in 1797, was a time of rising prices and commercial prosperity which continued until approximately 1809. The second period, encompassing the year 1809-1818, was characterized by falling prices and economic distress both prior to and after the resumption of specie payments in 1819. Jacob Viner has characterized the two
periods as the "inflation phase" and the "deflation phase" respectively.1

The outbreak of the wars with France in 1793 initiated a re-examination of the financial practices of banks and, consequently, of the theory of money. As Jacob Hollander notes,

More than a generation separated the appearance of Adam Smith's Wealth of Nations in 1776 from the publication of David Ricardo's High Price of Bullion in 1810. Memorable as these years were with events in the industrial life of England, they witnessed but little change in the prevailing body of economic thought.2

By 1810 it was still possible to speak of the supremacy of The Wealth of Nations in all fields of economics except one. Hollander states it quite succinctly:

But in one particular field—the theory of money—there was a marked advance. Here as elsewhere Adam Smith's exposition, partial and defective tho it was, prevailed for a score of years without dissent. But in 1797 came the Bank Restriction. The extraordinary series of monetary events leading up to and growing out of the suspension subjected the accepted doctrines to new and unfamiliar tests, and focussed the attention of a remarkable succession of keen minds upon underlying principles. The result was that in the decade from 1797 to 1807 the theory of money underwent substantial modification, and attained the sure outline, if not the full detail, in which it figured for the next half century.3

The body of controversial literature spawned by the experiences of the early war years is recognized as being of high quality as well as being voluminous.4 The individual authors can be divided conveniently into two groups, bullionists and anti-bullionists; i.e., anti-restrictionists and restrictionists depending upon their orientation to the Act of Parliament suspending specie payments by the Bank.5 The essence of the bullionist position was
expressed in such works as Walter Boyd's, *A Letter to ... Pitt*, Lord King's *Thoughts on the effects of the Bank restrictions*, Henry Thornton's *An enquiry into the nature and effects of the paper credit of Great Britain*, John Wheatley's *Remarks on currency and commerce*, and Francis Horner's review of Thornton in the *Edinburgh Review* of 1802. Among the most effective of the early anti-bullionist works were the Parliamentary speeches of Nicholas Vansittart and George Rose as well as Henry Boase's work, *A letter ... in defense of the conduct of the directors*.

The later period, the "deflation phase" of the bullion controversies, found the publications of T. R. Malthus, Robert Mushet, and William Huskisson, as well as those of David Ricardo, to be the most influential of the bullionist works. The works of Bosanquet, Trotter, and Herries occupy a similar position among the anti-bullionist publications during this period. The influence of David Ricardo on the course of these later financial deliberations, as we shall see, was substantial. If Ricardo contributed little by way of fresh insight to the understanding of monetary theory, his forceful statement of the bullionist position, before the committees of Parliament as well as in his published work, was largely responsible for the repeal of the Bank restriction of 1797 and for forming the outlines of what was to become standard monetary theory. Furthermore, in terms of his own intellectual development, the position he articulated during the course of the bullion controversies is a clear statement of the underlying principles of free trade which, carried to their
logical extension, would later become the fundamental basis of his theory of value.

Background to the Bullion Controversies:

The Inflation and Deflation Phases

From the onset of war with France in 1793, the Bank of England found that it could meet its financial obligations only with the greatest difficulty because of the demand for advances by the Government to meet its war needs. Although it might be true, because of the intermittent nature of the wars and the ongoing nature of economic growth in Britain, that the wars did not have the adverse consequences normally associated with a total commitment, it is nevertheless true that they were very costly in financial terms. As can be seen in Table I, prior to the outbreak of war in 1792, the total public expenditures of Great Britain (not including Ireland) amounted to £ 27.55 million. The outbreak of war in 1793 saw that figure jump to £ 30.59 million, an increase of slightly in excess of £ 3 million. And, as can be seen from the Table, military spending accounts for virtually the entire increment. Expenditures for military purposes increased £ 4.76 million between 1792 and 1793. In 1792 expenditures for military purposes comprised approximately one-fifth of the total budget; in 1793 expenditures for military purposes comprised approximately one-third of the total budget. And these figures continued to increase rapidly. By 1797, the year of the Bank restriction, total public expenditures had grown to
TABLE 1

BRITISH NET PUBLIC EXPENDITURE, WITH PRINCIPAL HEADINGS, 1790-1816

For 1801-16 payments out of gross income were deducted from original data, which give only gross expenditure. Balances omitted.

(Unit: £1,000,000)

<table>
<thead>
<tr>
<th>Years Ending Oct. 10</th>
<th>(1) Interest Charge</th>
<th>(2) Capital Charge</th>
<th>(3) Interest + Capital</th>
<th>(4) Civil Government</th>
<th>(5) War Services</th>
<th>(6) Total Civil and War</th>
<th>(7) Total Expenditure</th>
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<tr>
<td>1790</td>
<td>9.37</td>
<td>9.41</td>
<td>18.78</td>
<td>2.20</td>
<td>5.22</td>
<td>7.42</td>
<td>26.20</td>
</tr>
<tr>
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\[a\] Includes interest and management of Irish debt funded in England and discount on prompt payment of loans.

\[b\] Includes sinking fund of Irish debt funded in England. Funding of Navy, victualling, and Transport bills included, 1794-97, inclusive. The principal item in the capital charge is retirement of Exchequer bills.

\[c\] Includes advances and loans to Ireland in 1797 and 1815 (9.93). Payments (principally management) out of gross income (civil) deducted, 1801-16, inclusive.
TABLE 1--Continued

Includes an item of public advances of money (usually in Exchequer bills) "for the relief of merchants" in 1793 (2.20), 1795 (.81), 1796 (.10), 1811 (1.34). Includes advances and grants to the East India Company for war purposes. Payments out of gross income (military) deducted, 1801-16, inclusive.

£71.57 million while war expenditures had increased to £29.43 million, forty-one per cent of the total budget.

To meet the growing need for revenue to finance the war the government resorted both to loan and to non-loan sources. And while the government was successful in increasing its funds through already existing sources of revenue, from £18.90 million in 1792 to £21.48 million in 1797, total borrowing during the same period increased six fold, from £8.52 million to £53.8 million (Table II). As a proportion of total net income, funds derived from borrowing amounted to 31 per cent in 1792; by 1797 this figure had increased to 71.5 per cent. In other words, during the same time period, funds derived from non-loan sources declined from 69 per cent to 28.8 per cent (Table III). To complete the picture, Table IV presents the ratio of unfunded to total public borrowing. As Norman Silberling notes: "William Pitt, confronted in the early years of the war by a seriously strained money market, and repeatedly implored by the Bank to desist from forcing Exchequer bills down the throat of that institution, resorted to heavy long-time borrowing." But in spite of this pressure exerted by the Bank on the government to find alternate means of finance, the resources of the Bank proved to be insufficient to meet the demands of the government. It was only after the suspension of specie payments, as can be seen in Table IV, that the bank was able to resume its previously great role of providing short-term finance for the war.

The eventual outcome of the mounting pressure on the metal
TABLE 2
BRITISH PUBLIC INCOME, WITH PRINCIPAL HEADINGS, 1790-1816

For 1790 to 1800, original data give net income; 1801 to 1816 gross income; i.e., including a small item of management, drawbacks, etc., not formerly included. As explained below, the total income figures (in Col. 10) are net throughout.

(Unit £1,000,000)

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*a* Includes duties on pensions, offices, personal estates, and war tax beginning 1798.

*b* Includes repayment of impost money and mercantile advances; first fruits; income from Crown lands; conscience money; lotteries and prizes; and remittances of interest from Ireland. Figure for 1798 includes voluntary contributions of 2.13 million pounds, per 38 Geo III, c. 16. After 1809 includes remittances from Ireland toward two-seventeenths of joint U.K. expenditure.

*c* After 1800 there have been deducted from the grand total income the total payments for collection and management, which renders the totals of the latter years approximately comparable with those of the preceding years. The discrepancy in the separate items is mainly in the customs and excise.

TABLE 3

PERCENTAGE OF TOTAL BRITISH NET INCOME DERIVED (A) FROM REVENUE, AND (B) BY BORROWING, 1790-1816*

(Unit: One Percent)

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*Since total income and total expenditure usually coincided within a very small margin (representing balances), the figures hold equally well as showing the proportion of revenue and borrowing to expenditure. The years are as explained in preceding tables.

### TABLE 4

**PERCENTAGE OF UNFUNDED TO TOTAL PUBLIC BORROWING, ANNUALLY, 1793-1816***

(Unit: One Percent)

<table>
<thead>
<tr>
<th>Year</th>
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<th>Year</th>
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<td>39.5</td>
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<td>1810</td>
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*Years ending Oct. 10 to 1800; thereafter ending Jan. 5 following. The figure for the odd fourth quarter of 1800 of 72.6%*

reserves of the Bank was the Act of 1797 restricting specie redemption of Bank notes.

Early in 1797, a general panic, induced apparently by rumors of a French landing on English soil, and accentuated by failures and suspensions on the part of the country banks, led to a general clamor for gold. On February 25, 1797, there were only £1,272,000 of specie and bullion in the Bank, as compared to ordinary reserves of £5,000,000 or over. 10

Thus an order-in-Council was issued on February 26, by the government and, at the request of the Bank, specie payments were discontinued. The order-in-Council was subsequently enacted into law by an act of Parliament of May 3, 1797; through subsequent renewals it remained in effect until its repeal in 1819. 11

Silberling has pointed out that it was approximately two years after the suspension of payments before it was first observed that the prices of gold and silver were appreciably above their mint prices and that the foreign exchange rates were significantly different from par. 12 Ordinarily this would produce a situation where notes would be exchanged for specie in order that the specie be used for export or melted into bullion because of the profit attached to such activities during a period of inflation. But there were laws against both melting and exporting British coins which probably acted to discourage the premium on specie that one would normally have expected at such a time. "Nevertheless, there was an extensive illicit trade in melting coins for sale in the bullion market, and the gold coins, which were in better condition than the silver, very soon disappeared from circulation." 13 Thus began the controversies
on the floor of Parliament and in the pamphlet press concerning the Bank restriction.

* * *

In contrast to the initial phase of the bullion controversies, the second phase, the "deflation phase," was characterized by falling prices. The year 1810 marked the beginning of a depression which continued for approximately a year. This downturn was accompanied by the collapse of many country banks and by a general situation best described as one of tight credit. To alleviate the problem the government issued £6,000,000 in exchequer bills to merchants on the security of commodities. Although it is not possible to tell precisely what impact this move had on the general level of prices, it would appear, in retrospect, to have been beneficial in its effects. Silberling has calculated the price level in England for the years 1810-1830. Using 1790 as the base year, the price index for 1810 was 176; for 1811 it was 158, reflecting the decline in business activity. The general level of prices increased to 163 in 1812, to 185 in 1813, and to 198 in 1814, which would lend credence to the opinion that this upturn was the result of the government's action. Whether or not the activity of the government was responsible for the upturn, it was but a brief respite from what otherwise was a general decline in prices. As Silberling's index reveals, the index fell every year—with only three exceptions—between the years 1814-1830. The total fall in the price level over this span of time was 105 points, from a level of 198, in 1814, to a level of 93, in 1830.
Concurrent with this decline in the general level of prices there existed a general depreciation of paper currency; that is to say a premium on bullion. This premium reached a peak in 1813, for gold, and in 1814, for silver. The crest in the price of bullion during these years was followed by several years of a highly unstable market situation. As Viner notes, the resumption of hostilities in 1815 was met with a rise in the price of bullion. This increase in the price of bullion followed a brief decline in its price during the years 1813-1814. Once again quite abruptly, Napoleon's defeat, which occasioned a decrease in the price level, also brought about a decline in the premium on bullion. These fluctuations in the price of bullion (i.e., in the purchasing power of paper notes) continued until the resumption of specie payments in 1821 whereupon the price of gold fell rapidly to its mint price.

The relationship between the resumption of specie payments and the decline in the price level has been the object of some discussion. Viner points out that Ricardo had, in fact, predicted that resumption of specie payments, of which he was the chief advocate, would produce a decline in prices in the neighborhood of 3 to 8 per cent. This came in testimony before the Commons Committee on March 4, 1819. In fact, however, prices declined more than he had estimated. Ricardo blamed the decline on mismanagement by the Bank, insisting that if the resumption had been managed in accordance with his plan the decline in the price level would have been within acceptable limits (approximately 5 per cent). Those individuals who most
vigorously opposed Ricardo, such as Sir W. Heygate, contended that, shortly before his death, Ricardo had reversed his opinions to reflect their point of view that it was the resumption that had produced the economic downturn. This is not clear however. Three things are clear. First, in the absence of index numbers, it would appear that Ricardo underestimated the fall in prices that had occurred. Secondly, it is not possible to pinpoint with any accuracy the exact cause of the economic downturn. It is possible to say that resumption, and the anticipation of resumption, contributed to the magnitude of the decline, but resumption cannot be identified as the sole cause of the downturn. But, thirdly, resumption of cash payments at the old par meant that the only effective means of checking the downward trend had been abandoned.

Even Ricardo conceded that the Bank had some power to check a fall in prices, as long as its notes were inconvertible. But it was an advantage offset, according to him, by the disadvantages of an inconvertible currency.¹⁸

Throughout the second phase of these controversies over monetary policy Parliament took an active role. As noted previously, the Bank restriction of 1797 did not produce an immediate increase in the price of bullion.¹⁹ It was only after a period of two years that an appreciable increase in the price of bullion was first noted and, by 1804, the exchange rate had returned to its normal level where it remained for approximately four years. But in 1808 the exchange rate between specie and bullion once again began to fluctuate from par and, by 1809, the price of bullion was again substantially above par. It was in response to this set of circumstances, then, that the Bullion
Committee was appointed by Parliament in 1809 to investigate the problem and recommend solutions.

The Bullion Report was submitted to Parliament on June 8, 1810. The end result of the efforts of the Bullion Committee, it recommended the resumption of specie payments. It was not until more than a year after the original introduction of the report, however, that Parliament acted on its proposals. And, in this interval, the economic downturn had occurred which had the effect of increasing the opposition to the resumption of specie payments. Thus the Parliamentary session of 1811 defeated the Horner resolutions, which embodied the essence of the Bullion Report, by significant majorities. Although promising an eventual return to cash payments, Parliament did not act on the question again until 1819.

By 1819 both the House of Commons and the House of Lords had again appointed committees to examine the possibility of resuming specie payments. The appointment of these committees was probably the result of the highly unstable economic conditions referred to earlier and the consequent public pressure, emanating chiefly from Ricardo, to resume the redemption of notes in order to stabilize the economy. Once again, the recommendation of the respective committees was to resume specie payments. This time Parliament moved to repeal its restrictions on the redemption of notes by the Bank. An Act of July 2, 1819, in addition to repealing the restriction on specie payments, also repealed the long standing prohibitions on the export of coin and bullion. The repeal of these restrictions
had the predicted effect of immediately reducing the price of gold to its mint price. As such it represented a long awaited victory for the bullionist school of writers. However, the economic downturn which enveloped the repeal of these restrictions, as noted above, created doubts as to the wisdom of the resumption and kept the controversy between the bullionists and anti-bullionists alive for some time. Thus it was not until mid-century that the bullionists position was adopted as orthodoxy.

The central issue, both in the early years as well as in the later years of the controversy, revolved around whether the paper pound was depreciated. The bullionist position was essentially that the Bank notes were depreciated and that they were depreciated because the Bank had issued the notes in excess of the demand for them. Furthermore, "excess" was defined in terms of the hypothetical amount of money which, under similar circumstances, would have been in circulation under a metallic standard. "The bullionists argued, or more often simply asserted, that a circulation exceeding in amount what, under otherwise like conditions, could have been maintained under a metallic standard, was in excess." The anti-bullionists, to the contrary, attempted to refute this position.

In the early years of the controversies (the inflation phase), however, the argument centered less over the causes of the inflation than over whether, in fact, there was an inflation. The bullionist
position was that excess issue could be assumed if one noted a premium on bullion over paper. In other words, since the exchange rate for a currency was seen to be the result of its relative purchasing power which, in turn, was seen to depend on the amount of currency circulating therein (assuming the quantity theory of money) the price of bullion measured in paper notes was understood to be governed by the exchange rate with a metallic standard currency.

... Therefore, if the exchanges were below metallic parity, and if there was a premium on bullion over paper, this was evidence that prices were higher in England, and the quantity of currency in circulation greater, than would have been possible under the metallic standard prevailing prior to suspension of convertibility.²³

The difficulty with this position from the standpoint of those sympathetic to the bullionist position, as Wheatley and Ricardo were to show later, was that it could not be adequately demonstrated in practice. Francis Horner did attempt in this regard to demonstrate that relative prices could be used to determine whether or not a currency was depreciated²⁴ but index numbers did not yet exist for England or the Continent, making such comparisons virtually impossible.

To Ricardo, moreover, it seemed an absurd notion that the trend of prices in general, or of the general purchasing power of money, could be measured. Since prices fluctuated even under a metallic standard, he conceded that their fluctuations under an inconvertible currency could not be attributed solely to changes in the degree of excess of the currency.²⁵ Wheatley's position was not dissimilar.²⁶ Therefore, while both Wheatley and Ricardo accepted the essence of the argument that relative prices reflected relative quantities of currency in
circulation, they were chief among the critics of the practicability of measuring depreciation.

The anti-bullionist position in the early phase of the controversies was not, with the sole exception of a relatively minor figure, Lord Castlereagh, concerned with the question of measurement. Rather, anti-bullionists, in general, attempted to demonstrate that Bank note issues were not in excess of what would be expected with a metallic currency by showing one of two things—either that the issues had not increased or that such increases as had taken place had not been matched by the increases in the premium on bullion or on the exchanges. Others, as noted by Viner, such as Boase, conjectured that in order to prove that the currency had been mismanaged meant that one would have to prove that specie had commanded a premium over paper because bullion was not actually a medium of exchange and, therefore, was of no particular significance.

But it was not until the later years of the dispute (the deflation phase) that the central issue—the effect of the Bank Restriction on the value of currency—came to the fore. And chief among the detractors of established policy was David Ricardo.

**David Ricardo and the Bullion Controversies**

Ricardo's influence on the course of debate during the ten years between the appointment of the initial Bullion Committee in 1809 and the eventual repeal of the restrictions on the redemption of notes in specie in 1819 was great. As Piero Sraffa remarks, "Just as the previous period of a rising price for gold had produced a body of
controversial letterature . . . so now the increase in the price of gold which began in 1808 gave rise to the Bullion Controversy. 29 And all of the available evidence would indicate that it was Ricardo who initiated this phase (i.e., the "deflation phase") of the public dispute with his anonymous article to the Morning Chronicle of the 29th of August, 1809. Ricardo's interest was to explain the difference between the value of gold and that of the Bank notes, endeavoring to understand the apparent depreciation of the latter. The publication of Ricardo's letter touched off a controversy between the advocates of the policy of the Bank of England (the anti-bullionists who favored the inconvertibility of specie and bullion) and its detractors (the bullionists who favored a return to convertibility). Ricardo, as we have seen, was the chief spokesman of the latter group. In his initial letter of August 29, Ricardo outlined what he felt to be the pernicious effects of the depreciation of the Bank notes on the economy and fixed the blame squarely on the over issue of such notes by the Bank of England. In what was to become his consistent theme over the next decade, Ricardo states:

It would then be evident that all the evils in our currency were owing to the over-issues of the Bank, to the dangerous power with which it was entrusted of diminishing, at its will, the value of every monied man's property, and by enhancing the price of provisions, and every necessary of life, injuring the public annuitant, and all those persons whose incomes were fixed, and who were consequently not enabled to shift any part of the burden from their own shoulders. 30

Ricardo's initial letter was answered in the Morning Chronicle by Hutches Trower who preserved the anonymity of the dispute by
signing his rebuttal "A Friend to Bank Notes, but No Bank Director," in which Trower endeavored to defend the policy of the Bank of England against Ricardo's criticisms. The remainder of this initial phase of the public dispute consisted of four further letters to the Morning Chronicle, two by each, between the dates of September 20th and November 23, 1809. In addition, upon learning of their respective identities, Ricardo and Trower continued to exchange private papers on the subject, of which two remain in existence. "Thus a private controversy arose between them concurrently with the last stage of their published letters and was carried on after their controversy in public had come to an end."

The essence of the dispute between Ricardo and Trower concerned the policy of the Bank of England, adopted in 1797, which restricted payments of its notes in specie. Ricardo adopted the position that such restriction was responsible for the rise in the price of gold (i.e., the depreciation of bank notes) while Trower defended the Bank's policy, maintaining that the high price of gold was a result of scarcity.

Noting the rise in the price of gold since 1797, Ricardo stated that prior to that date a stable relationship between specie and notes had existed. "It is only since 1797, since the year that the Bank has been restricted from paying its notes in specie, that gold has risen . . . [in price]." Ricardo's position was that while notes were freely exchangeable for specie the flow of gold into and out of the country would act so as to increase or decrease the
amount of notes in circulation, thus stabilizing the relationship between the value of gold and that of bank notes. That is to say the depreciation of bank notes, from Ricardo's perspective, was strictly a function of inconvertibility:

If . . . whilst the Bank paid in specie gold rose to 4 . . more per ounce, . . dealers would exchange their notes at the Bank, obtaining an ounce of gold for every 3 . 17s. 10½d. in bank notes. This gold would be melted and sold, or exported for 4 . . more in bank-notes per ounce; and as this operation might be repeated daily, or indeed hourly, it would be continued till the Bank had withdrawn the superfluous quantity from circulation, and had thereby brought the market and mint prices of gold to a level.33

The consequences of the depreciation of specie and notes vis a vis bullion, according to Ricardo, were basically of two sorts. First, such depreciation had an adverse effect on capital accumulation in that it reduced the real value of property held as money. In reviewing a manuscript forwarded to him by James Mill, Ricardo remarks:

Much of his argument is built on the assumption that an increase of the circulating medium though attended with the effect of depreciating the value of the currency, is also attended . . . with an increase of capital and commodities, and is so far beneficial;—he has supposed that money calls goods into existence which but for that money would not have been produced . . . .

The increase of money in my opinion can have no other effect than raising the prices of commodities. By such means some members of the community are enriched at the expense of others; there is a mere transfer of property, but no creation. Whether those who are enriched will employ their additional income more economically or more advantageously than those who before possessed it, must be matter of speculation only. My opinion however is that by no class are greater savings made than by those who are in possession of fixed monied rents and annuities. As far as they have come under my observation, and I have seen a good deal of monied men, they are amongst the most accumulating of the community.34

The second facet of the depreciation of specie and notes,
according to Ricardo, was its adverse consequences for foreign trade. In order to engage in commercial trade between nations, it is first necessary to purchase sums of foreign money to conduct that exchange.

If I purchase from a resident in Holland goods of that country, the bargain is made in the money there current. I have consequently contracted to pay him a certain number of ounces of silver of a given purity. As the comparative value of silver and gold is nearly equal all over the world my debt may be either estimated in silver or in the number of ounces of gold for which it would exchange . . . .

Due to the Bank restriction, however, the English merchant was at a distinct disadvantage because of the inconvertibility of specie and paper. Gold bullion was no longer available for the conduct of such foreign transactions; only the depreciated specie and paper were available. And since foreign transactions are "made in the money there current," the depreciated value of the currency would mean higher costs to the English importer and lower prices for the English exporter. This imbalance could be entirely rectified, according to Ricardo, by removing the Bank restriction which would return the value of paper and specie to a par with bullion; that is, the adverse effects of the inflation would be mitigated.

Ricardo contributed three further letters to the Morning Chronicle on the currency question, all during the month of September, 1810. The initial letter, a favorable critique of the report of the Bullion Committee, reiterated his basic objections to the Bank restriction of 1797:
The Legislature has, by the restriction law, sanctioned for many years a most unjust interference in all contracts, benefiting one of the contracting parties at the expense of the other. No complaint has been so common as the increased prices of every commodity, but very few know, or can be made to understand, how large a portion of the inconvenience which they suffer, is to be ascribed, wholly, to the improper use which the Bank Directors have made of the extraordinary powers with which the Legislature has entrusted them. The evil is not less real because its source is concealed from ordinary optics. 

To the many objections to the Report of the Bullion Committee, that a return to redemption of notes would decrease foreign trade, Ricardo replies:

It is by many supposed that the mode recommended by the Bullion Committee for the adoption of Parliament, namely, to oblige the Bank to pay their notes on demand in specie at the expiration of two years, will materially lessen the amount of our exports and imports. If it is meant that the nominal amount independent of the quantity or value of the circulating medium . . . 38—or the number of hogsheads of sugar imported—-they must for ever be independent of the quantity or value of the circulating medium . . . 38

The real effect of the Bank restriction, according to Ricardo, was to discriminate against those who held property in the form of money; that is, it was inimical to the accumulation of capital. Anticipating what would become a major theme of his later works (see Chapter IV), Ricardo contends that it is the landlord who benefits from the inconvertibility of specie and notes to the detriment of the rest of the community:

The depreciation of the circulating medium has been most injurious to monied men.—By monied men I mean, that class whose property consists wholly of money, the amounts of which must, in this country, far exceed the total amount of the circulating medium.

It may be laid down as a principle of universal application, that every man is injured or benefited by the variation of the
value of the circulating medium in proportion as his property consists of money, or as the fixed demands on him in money exceed those fixed demands which he may have on others . . . . .

Applying the principle which I have already noticed to the monied man, he must of course be greatly benefited by the restoration of the currency, as he stands in relation of creditor to all those with whom he has dealings . . . . He will regain by the restoration of the currency to its original standard, that portion of his revenue of which he has long been unjustly deprived, and which has been enjoyed by the issuers of paper money. The stock-holder and annuitant will, for the same reasons and in the same degree, be benefited.39

The remaining letters to the Morning Chronicle consist of Ricardo's rebuttals to two adverse critiques of the Bullion Report. The first of these critiques was by Sir John Sinclair (M.P.) and entitled Observations on the Report of the Bullion Committee, in which the author contended, among other things, that (1) the increase in national prosperity since 1797 was attributable to the bank restriction and (2) that this increase in wealth is attributable, in part, to the decrease in interest on money as a result of the depreciation of the circulating medium. Ricardo, in his letter to the Morning Chronicle of 18 Sept. 1810, replies to these assertions.

On the question of the increase of national wealth, Ricardo remarks:

That this country has since 1797 greatly increased in wealth and prosperity, is not denied; but it cannot be justly estimated by a comparison of the nominal amount of our exports and imports, at that period and this, because they are now estimated in a depreciated circulating medium. If the currency were now doubled, the nominal value of the exports and imports would be required of the country having increased its wealth in the same proportion.40

To Sinclair's assertion that an increase in paper circulation reduces the interest on money, thereby stimulating commerce, Ricardo replies:
If Sir John will take the trouble to consult the 4th Chap. 2d book, of Dr. A. Smith's celebrated work, he will there see it undeniably demonstrated, that the rate of interest for money is totally independent of the nominal amount of the circulating medium. It is regulated solely by the competition of capital, not consisting of money . . . . He will also see in the same work, that the power of "effecting lasting improvements such as roads, canals, bridges, harbours, mines, buildings, &c &c" depends upon the real wealth and capital of the country, and can neither be accelerated or retarded by the amount of the circulating medium.41

The second critique of the Bullion Report to which Ricardo responded in the pages of the Morning Chronicle consisted of a speech by Randle Jackson to the General Court of the Bank of England on the 20th of Sept. 1810. Replying to Jackson's assertion that the Bullion Report was a partisan document reflecting "party spirit," Ricardo replies that the issue should be considered on its merits:

Most willingly do I agree with Mr. Jackson in the just tribute which he paid to the disinterestedness and integrity of the Bank Directors; but I can go no further with him, and must deny them the character for ability and discretion, which he also bestows on them. But if men less scrupulous had been in the Direction, they might, with the power which they possessed, have alternatively raised and depressed the price of Bullion, by the increase or diminution of their notes, and might either in their corporate or individual capacities have taken advantage of the successive variations.42

These opinions, expressed in a fragmentary fashion in the pages of the Morning Chronicle, found fuller expression in three further publications, The High Price of Bullion, A Proof of the Depreciation of Bank Notes (1810-1811), A Reply to Mr. Bosanquet's 'Practical Observations on the Report of the Bullion Committee (1811), and Proposals for an Economical and Secure Currency (1816). Of these three
works The High Price of Bullion and Proposals for an Economical and Secure Currency are of primary theoretical significance. His Reply to Mr. Bosanquet's 'Practical Observations on the Report of the Bullion Committee' is a highly technical, factually-oriented, treatise in which Ricardo attempts to refute Bosanquet's thesis that the evidence which the Bullion Committee used to support its recommendations was at variance with fact. Suffice it to say, it was Ricardo's opinion that Bosanquet was in factual error—"his statements are at variance with fact." Ricardo adheres to his previously expressed opinions, "unassailable by reasoning and argument," and marshalls his own interpretation of the history of exchange relations to support his views.

The publication of The High Price of Bullion, coming as it did on the heels of Ricardo's letters to the Morning Chronicle, has caused substantial subsequent controversy over the relationship of the pamphlet to the original letters. The pamphlet appeared approximately a month after his last letter to the Morning Chronicle. Because of the length and systematization of the pamphlet, in comparison to his previously published letters, commentators have arrived at widely differing conclusions as to the nature of the pamphlet. As Piero Sraffa reports, McCulloch concluded that the pamphlet contained nothing other than a publication of Ricardo's contributions to the Morning Chronicle in book form. Both Sraffa and Jacob Hollander agree, however, that this conclusion reflects only McCulloch's editorial neglect—McCulloch had not read Ricardo's original letters. Norman Silberling has contended, to the contrary, that the pamphlet
was actually written prior to the publication of the letters as part of a bear manuever on the stock exchange. In this "strange theory" Sraffa has little faith. There is no evidence, according to Sraffa, which could lead one to believe that the pamphlet was published prior to his letters. At any rate, this point is somewhat academic to an understanding of Ricardo's theory of money. Ricardo was an advocate of "monied interests." This no one denies.

The *High Price of Bullion* appeared in four separate editions and, together with his *Proposals for an Economical and Secure Currency*, constitute his primary theoretical works on the theory of money. Just as his original letters to the *Morning Chronicle* and his *High Price of Bullion* were written with the intent of influencing the proceedings of the Bullion Committee, his *Proposals for an Economical and Secure Currency* was written in response to the renewed debates in Parliament on the question of the Bank restriction. As is clear from Ricardo's correspondence during this period, he was induced to write the pamphlet by one Pascoe Grenfell (M.P.) who was actively campaigning in the House of Commons for a statutory limit on the profits of the Bank in their dealings with the Government. In a letter to Ricardo dated 1 August 1815, Grenfell invites him to write a short pamphlet "on the Subject to which I have lately called the attention of Parliament":

I think the discussion—and a more general diffusion of the Facts which refer to this Subject, may have the Effect of bene-fitting the Public (my only motive for originating it) and at the same time accelerate to the Proprietors of Bank Stock, the particip-ation in the immense Profits already made by the Bank, to which there can be no doubt, their charters and every principle of Justice and equity entitle them.
One month later, in a letter to Malthus, Ricardo indicates his sympathy with Grenfell and points out that he is willing to go much further than Grenfell's proposal to limit the profits of the Bank in their dealings with the Government:

Before I came here [to his country residence at Gatcomb Park] I often saw Mr. Grenfell who is very warm on the subject of the Bank, and the advantageous bargains which it has always made with Government, as well for the management of the National Debt . . . . I am quite of his opinion, and indeed I go much further. I think the Bank an unnecessary establishment getting rich by those profits which fairly belong to the public. I cannot help considering the issuing of paper money as a privilege which belongs exclusively to the State.—I regard it as a sort of seignorage, and I am convinced . . . . that Commissioners might be appointed independent of all ministerial control who should be the sole issuers of paper money . . . . These Commissioners should also have the management of the public debt, and should act as Bankers to all the different public departments. . . . In looking over the papers which have from time to time been laid before Parliament I think it might clearly be proved that the profits of the Bank have been enormous,—I should think they must have a hoard nearly equal to their Capital. By their Charter they are bound to make an annual division of their profits, and to lay a statement of their accounts before the Proprietors,—but they appear to set all law at defiance. I always enjoy any attack upon the Bank and if I had sufficient courage I would be a party to it.  

The content of Ricardo's *Proposals for an Economical and Secure Currency*, however, differs substantially from his opinions as expressed to Malthus in the above letter. As Sraffa points out, "There is . . . only an incidental allusion to this plan [the above], in the closing paragraph of the pamphlet, and it was not until 1823 that Ricardo developed the idea, in his *Plan for a National Bank*.  Although a considerable portion of the work is devoted to an expression of Grenfell’s concern with the inequity of the existing profit margins of the Bank, Ricardo's major concern was in developing a rationale for the redemption of Bank notes in bullion. The manuscript was reviewed
by at least three individuals. Grenfell reviewed it in September of 1815 and was wholly satisfied with it. In addition, Ricardo sought the advice of Malthus and James Mill, both of whom were enthusiastic. As was the typical case with Ricardo on matters of theoretical importance, it was Mill's advice that was decisive. "Mr. Mill recommends its publication . . . " In January, 1816, Ricardo inquired with Murray, his publisher, about the prospects for publication and the manuscript finally appeared on the 1st of February, 1816. Three editions of the work appeared between 1816 and 1819 and were instrumental in the deliberations in Parliament on the question of the resumption of cash payments.

* * *

Together with his various letters and pamphlets on the currency question, Ricardo was also active as a public figure in advocating the repeal of the statute empowering the Bank to restrict the convertibility of its notes and specie. He was frequently in attendance at the Bank Court and, at least on one occasion, addressed that body (Dec. 21, 1815). He remarks to Malthus a few days later:

I attended the Bank Court the other day . . . . The Chronicle, I see, has reported what he thought or heard I said, but he has imputed to me what I neither felt nor uttered. Allusions were made to the Bullion question and it was said that it had been prophesied that if the Bank Directors were corrupt, they might with the power they had of issuing paper occasion the greatest public distress,—no such distress however had been experienced. I observed in reply that the goodness of the system was not proved by the distress not having occurred,—that the speaker had been only paying a compliment to the integrity of the Directors, in which no one in the court was more ready to join than myself . . . . Though I was ready to declare my confidence in the integrity of the Directors, there were many parts of their system of which I could not approve . . . .
As an M.P. Ricardo actively lobbied for the repeal of the Bank Restriction. The statute empowering the restriction was repealed on July 2, 1819 only a short time after Ricardo had assumed his seat. One of his first speeches as an M.P. concerned the Peel resolutions which, embodying the proceedings of the Committee of the House of Commons, proposed the resumption of cash payments.

He entered on his parliamentary career with a considerable reputation as the originator of the currency plan embodied in Peel's Bill of 1819; and on the occasion of his first important speech, which was on the Resumption of Cash Payments, "he did not rise until he was loudly called upon from all sides of the House."56

From this point on, however, Ricardo was an active speaker, and while he more often spoke against Government policy than for it, he was an active supporter of the Government on the question of the resumption of cash payments. Not only did he have occasion to support Peel's Bill, which mandated the resumption of cash payments, he was the most avid defender of that policy against the attacks of the agricultural classes who found occasion to blame a decline in agricultural prices on that policy. Thus Ricardo was very instrumental in changing Government policy on this question—first as a pamphleteer and later as an M.P.—and the monetary theories which he developed were in direct response to this question of national policy.

Ricardo's Theory of Money

In his various contributions to the debate over the currency question, between the dates of his initial letter to the Morning Chronicle in 1809, and the publication of his Plan for a National
Bank in 1823, Ricardo offers a highly consistent set of views. Ricardo never wavered from his initial position that a currency is best which is freely exchangeable with the standard of that currency; and this for the dual reasons that such a free exchange would have the effect of fostering the accumulation of property in the form of money, and would maintain Britain's competitive advantage in foreign trade. It was from this perspective that the restrictionist policy of the Bank of England was to be assailed. We may now turn to Ricardo's more explicit theoretical justifications of his policy position on this question contained in his *High Price of Bullion* and *Proposals for an Economical and Secure Currency*.

The basic axiom of Ricardo's position is that a stable currency is indispensable to economic well-being, a stable currency being one characterized by a relative uniformity in value between the various components of that currency—bullion, specie, notes.

All writers on the subject of money have agreed that uniformity in the value of the circulating medium is an object greatly to be desired. Every improvement therefore which can promote an approximation to that object, by diminishing the causes of variation, should be adopted.

More precisely, according to Ricardo, a stable currency is one in which the value of specie and paper are in long-run equilibrium with the precious metals, the foundation of the currency. "It was the comparative steadiness in the value of the precious metals, for periods of some duration," according to Ricardo, "which probably was the cause of the preference given to them in all countries, as a standard by which to measure the value of other things." It is to
this "comparative steadiness" of the precious metals that the circulating medium (i.e., specie and notes) should approximate in the long-run. Short-run fluctuations in the value of specie and notes are to be expected; indeed, as will be shown, short-run fluctuations are an integral part of Ricardo's model in that these fluctuations facilitate the flow of capital. From Ricardo's perspective, it is the long-run discrepancies between the value of the circulating medium and bullion that are to be feared.

"A currency may be considered as perfect," according to Ricardo, "of which the standard is invariable, which always conforms to that standard, and in the use of which the utmost economy is practiced." Of course, it is perfectly apparent that no currency can meet this standard of invariability due to the fact that the standard is not invariable. "No plan can possibly be devised which will maintain money at an absolutely uniform value, because it will always be subject to those variations to which the commodity is subject, which has been fixed upon as the standard." Thus, fluctuations in the standard are to be expected together with fluctuations in the other components of the currency (specie and notes), the value of the latter being tied directly to that of the former.

There are thus two separate yet interrelated aspects to the question of the value of a currency. The first pertains to the value of the standard. Variations in the value of the precious metals are the result of differentials in their respective costs of production, and these differentials reflect, in turn, their relative scarcity.
A country using gold as its standard would require, at least, fifteen times less of that metal than it would of silver, if using silver, and nine hundred times less than it would of copper, if using that metal,—fifteen to one being about the proportion which gold bears in value to silver, and nine hundred to one the proportion which it bears to copper.62

Thus we can see, according to Ricardo, that the quantity of a standard required for any given set of commercial transactions (e.g., the total commercial transactions of a particular country) is dependent on the value of that standard which, in turn, is dependent on its cost of production.

Just as differences exist between the value of the respective standards based on the differentials in their respective costs of production, so changes in the value of a particular standard, over time, are seen by Ricardo to be due to changes in the cost of producing that standard. "Suppose the metal to be silver, and that, from the difficulty of working the mines, silver should be doubled in value,—half the quantity only would then be wanted for money . . . "63

In other words, over a period of time, fluctuations in the cost of production and thus the value of the standard dictate the quantity of the standard necessary. And the measure of the value of the standard is, according to Ricardo, its mint price, that is, the costs of mining the standard together with the costs of transportation and minting the bullion into coin. What is therefore obvious from Ricardo's treatment of the value of the standard is that the quantity of precious metals required is in direct proportion to their value, the latter being dependent on supply variables only—that is to say, on the variables associated with cost of production. In the long-run the
value of a currency—specie and notes—will conform to the value of the standard.

The second aspect of the value of a currency, which completes Ricardo's conceptualization of the components of value, involves the circulating medium (specie and notes). And this subject is of importance, according to Ricardo, because of the universal acceptance of paper notes as the preferable circulating medium and the effect of paper on the value of the currency—bullion and specie as well as the paper itself. The universal acceptance of paper as the basis for a circulating medium is seen by Ricardo to be due to its unique advantages:

Amongst the advantages of a paper over a metallic circulation, may be reckoned, as not the least, the facility with which it may be altered in quantity, as the wants of commerce and temporary circumstances may require; enabling the desireable object of keeping money at an uniform value to be, as far as it is otherwise practicable, securely and cheaply attained. 64

The value of a currency, according to Ricardo, as opposed merely to the value of the standard, involves elements other than the cost of production of the standard. These elements are perhaps most appropriately identified with the demand for the currency; that is, with the volume and/or value of the commercial transactions contracted during any given period together with the "efficiency" in the use of the currency. These are the short-term variables impinging upon the value of a currency. But just as the value of a currency cannot be understood merely in terms of the cost of production of the standard neither can it be understood only in terms
of the short term variables; they must be considered together.

* * * *

Before turning to a consideration of the short-term variables, therefore, it is first necessary to consider the long-run relationship between the value of the circulating medium and that of the standard. In the long-run, the value of a currency is tied directly to the value of the standard. The above example of differentials in the cost of production of the precious metals—gold, silver and copper—is illustrative of Ricardo's understanding of the relationship between the value of a currency and that of the standard.65 Continuing his example, Ricardo remarks:

If the denomination of a pound were given to any specific weight of these metals, fifteen times more of such pounds would be required in the one case, and nine hundred times more in the other, whether the metals themselves were employed as money, or paper was partly, or entirely, substituted for them.66

Thus the value and quantity of a currency in the long-run is seen to be dictated by the same principle that dictates the value, and thus quantity, of the standard; i.e., the cost of production of the standard. Similarly, changes in the value, and thus quantity, of the standard over time are seen to have an impact on the value and quantity of a currency. Continuing the aforementioned illustration of an increase in the value of silver (assuming silver to be the standard)67 Ricardo remarks, "And if the whole business of circulation were carried on by paper, of which the standard was silver,—to sustain that paper, at its bullion value, it must in like manner be reduced one half."68
The value and thus the quantity of currency in circulation, however, is seen to be dependent not only on long-run variables (the variables associated with the value of bullion) but also on short-term variables, variables which reflect the inherent demand for currency in any given set of commercial transactions. As noted previously, Ricardo identifies these short-term variables as essentially of two sorts—the volume and/or value of the commercial transactions contracted during any given period together with the "efficiency" in the use of the currency. With respect to the first variable, the effective demand for currency is seen to have an impact on the value of the currency, an impact which causes the value of currency and bullion to diverge. Although the following example concerns a change in the volume of transactions, by analogy, it also applies to a change in the value of transactions:

... When the number of transactions increase in any country from its increasing opulence and industry—bullion remaining at the same value, and the economy in the use of money also continuing unaltered—the value of money will rise on account of the increased use which will be made of it, and will continue permanently above the value of bullion, unless the quantity be increased, either by the addition of paper, or by procuring bullion to be coined into money .... The value of money then does not wholly depend upon its absolute quantity, but on its quantity relatively to the payments which it has to accomplish; and the same effects would follow from either of two causes—from increasing the uses for money one tenth—or from diminishing its quantity one tenth; for, in either case, its value would rise one tenth. 69

The second factor which Ricardo identifies as impinging on the demand for currency, and thus its value, is "the degree of economy practised in the use of it." 70 Thus, according to Ricardo:
If no payments were made by checks on bankers; by means of which money is merely written off one account and added to another, and that to the amount of millions daily, with few or no bank notes or coin passing; it is obvious that considerably more currency would be required, or, which is the same in its effects, the same money would pass at a greatly increased value, and would therefore be adequate to the additional amount of payments.

This aspect of the demand for currency is therefore similar in its effects to an expansion in the volume and/or value of commercial transactions. To the extent that currency is required to accomplish commercial transactions, other things being equal, the effect will be to increase the demand for currency which will have the corresponding effect of raising the value of the currency above the value of the standard (bullion).

The long-run value of a currency—bullion, specie, notes—is thus attributable to both long-run and short-run variables although, as we shall see, the long-run variables are the most important where there is a paper circulation as the basis of the currency. Two examples are relevant to this discussion. The first refers to a monetary system composed of bullion and specie; the second refers to a monetary system using paper as the basis for the circulating medium. Where coin is used as the basis of the circulating medium, the value of the currency in the long-run reflects both the long and short-term variables:

To say that money is more valuable than bullion or the standard, is to say that bullion is selling in the market under the mint price. It can therefore be purchased, coined, and issued as money, with a profit equal to the difference between the market and mint prices. The mint price of gold is 3s.17s.10½d. If, from increasing opulence, more commodities came to be bought and sold,
the first effect would be that the value of money would rise. Instead of 3 \( \frac{1}{6} \)s.17s.10\( \frac{1}{2} \)d. of coined money being equal in value to an ounce of gold, 3 \( \frac{1}{6} \)s.15s.0d. might be equal to that value; and therefore a profit of 2s.10\( \frac{1}{2} \)d. might be made on every ounce of gold that was carried to the mint to be coined. This profit, however, could not long continue; for the quantity of money which, by these means, would be added to the circulation, would sink its value, whilst the diminishing quantity of bullion in the market would also tend to raise the value of bullion to that of coin; from one or both these causes a perfect equality in their value could not fail to be soon restored.\(^7\)

Where the circulating medium is basically one based on paper notes, on the other hand, it is the value of the bullion that determines the value of the total currency:

It appears then, that, if the increase in the circulation were supplied by means of coin, the value both of bullion and money would, for a time at least, even after they had found their level, be higher than before; a circumstance though often unavoidable, is inconvenient, as it affects all former contracts. This inconvenience is wholly got rid of, by the issue of paper money; for, in that case, there will be no additional demand for bullion; consequently its value will continue unaltered; and the new paper money as well as the old, will conform to that value.\(^7\)

Thus, as is obvious from the foregoing analysis, Ricardo understands the value of the circulating medium to be dependent primarily upon what we have identified as the long-term variables, i.e., those associated with the cost of production of the standard. The short-term variables, i.e., those associated with the demand for the circulating medium, have the effect of increasing or decreasing the value of the circulating medium relative to the value of the standard. And this, in turn, has the effect of increasing or decreasing the quantity of the circulating medium in circulation:

It is the rise in the value of money above the value of bullion which is always, in a sound state of currency, the cause of its increase in quantity; for it is at these times that either an opening is made for the issue of more paper
money, which is always attended with profit to the issuers; or that a profit is made by carrying bullion to the mint to be coined. 74

These short-term fluctuations are important for understanding Ricardo's model of economic activity. The total demand for a currency—assuming a given state of efficiency in its use—reflects the comparative economic development of a country. For example, a greater relative demand for currency in Country A, versus that of Country B, reflects the greater number or value of transactions contracted in A versus B. Similarly, within any one country, a greater relative demand for currency between one time period and another reflects an increase in the number or value of transactions contracted in the latter, versus the former, period of time. And vice versa. Thus, given a country in which the number of transactions has increased over a period of time, or in which the total value of transactions has increased, the effect will be to increase the demand for the circulating medium or currency to effectuate the increased aggregate commercial transactions. This increase in the demand for currency causes its value to rise relative to that of the standard or bullion. This means that the same commodities now exchange at a higher price; the purchasing power of the currency has declined. The ramifications for the economy are obvious. For those who hold property in the form of money it means a decline in real wealth—the same amount of currency will purchase less of all commodities, including bullion. For those engaged in foreign trade there are similar disadvantages. Foreign purchasers will find that the same amount of bullion will
purchase an artificially inflated currency, that is, less real commodities. And the domestic importer finds that his currency will purchase less bullion meaning, in effect, higher foreign prices. These are the short-run disturbances caused by the fluctuation in the demand for currency. But in the long-run, according to Ricardo, assuming the convertibility of notes and specie into bullion, the value of the currency would soon conform to that of the bullion for the reasons advanced above.

* * *

This is not the case, however, if the Bank is permitted to restrict the convertibility of its notes and specie into bullion. In such a case the effect produced would be that of a permanent inflation in the value of the currency.

The writer proposes, from the admitted principles of political economy, to advance reasons, which in his opinion, prove, that the paper-currency of this country has long been, and now is, at a considerable discount, proceeding from a superabundance in its quantity, and not from any want of confidence in the Bank of England, or from any doubts of their ability to fulfill their engagements. The model adopted, that of "pure-competition," serves the function of isolating the role of the bank in the financial considerations of a country.

Ricardo begins by postulating the distribution of the precious metals throughout the "civilized" world prior to the establishment of banks. They were "divided into certain proportions among the different civilized nations of the earth, according to the state of their commerce and wealth, and therefore according to the number and fre-
quency of the payments which they had to perform. 

In other words, the supply of precious metals in any one country, and therefore the distribution of the precious metals between countries, was seen to be a function of economic development; the more developed the economy, the greater the reliance on money as a unit of exchange, the greater the demand for precious metals. Because the model posits no restrictions on the free flow of goods, including that of the precious metals, the currency is seen to be everywhere of the same value: "while so divided they preserved everywhere the same value, and as each country had an equal necessity for the quantity actually in use, there could be no temptation offered to either for their importation or exportation."  

Two other aspects of Ricardo's model are relevant to an understanding of his position on the currency question. First, the total quantity of precious metals is not seen to have any effect on the proportions in which the metals are divided between the respective countries. "The variation in their quantity would ... [produce] no other effect than to make the commodities for which they were exchanged comparatively dear or cheap." Thus, because there are no trade restrictions, an increase in the quantity of precious metals would not change the proportions in which they were divided and therefore is seen to have no impact on the model. 

Secondly, and also consistent with the model, there is a presumed aggregate balance of exports and imports among those countries between which the precious metals are divided.

England might possibly import more goods from, than she would export to, France, but she would in consequence export more to some other country, and France would import more from that country; so that the exports and imports of all countries would balance each other; bills of exchange would make the necessary payments, but no money would pass, because it would have the same value in all countries.

What the model postulates, therefore, is a stable currency—stable because its distribution is determined by demand, a distribution accomplished by virtue of the fact that its movement is unfettered. For the same reason, exports and imports are seen to be stable—that is, in balance—because trade is essentially the exchange of equivalents given the characteristics of the model. The system is in equilibrium.

To understand the effect of the establishment of banks on this model, Ricardo hypothesizes an analogy to the effects which flow from the discovery of a new mine. In the short-run, the effect of the discovery of a new mine on the currency of the country in which it is discovered would be a depreciation of that country's currency; the increase in the quantity of precious metals produces a devaluation in their power to command goods. The concomitant effect is the importation of commodities. This outflow of currency continues until the system is once again in a state of equilibrium; that is, when the quantity of currency within that country is once again equal to demand:

Gold and silver, whether in coin or in bullion, obeying the law which regulates all other commodities would immediately become articles of exportation; they would leave the country where they were cheap, for those countries where they were dear, and would continue to do so, as long as the mine should prove productive, and till the proportion existing between capital and money in each country before the discovery of the mine, were
again established, and gold and silver restored everywhere to one value. 80

What the discovery of a mine represents, therefore, is a short-run disturbance to the equilibrium of the system, an equilibrium restored by virtue of the fact that both currency and commodities are freely exportable. And the same conditions are seen by Ricardo to pertain to the issue of bank notes.

If instead of a mine being discovered in any country, a bank were established such as the Bank of England, with the power of issuing its notes for a circulating medium; after a large amount had been issued either by way of loan to merchants, or by advances to government, thereby adding considerably to the sum of the currency, the same effect would follow as in the case of the mine. 81

That is, according to Ricardo, the currency would be devalued, coin would be exported in exchange for commodities and equilibrium would be restored at such time as the quantity of currency no longer exceeded its demand.

The concomitant of this outflow of precious metals, the importation of commodities, produces an unfavorable balance of trade which, like the currency, would be restored to par only when sufficient bullion or coin had been exported to eliminate its oversupply. But, according to Ricardo, although the balance of trade appears to be unfavorable, it is actually a "most advantageous trade" for the reason that it contributes to the stock of commodities which might be employed in expanding the productive capacity and consequently the wealth of the country. 82

This, of course, would appear to be an untenable position. Such an outflow of precious metals does not, as Ricardo understands
it, amount to exchanging "that commodity which is superfluous, for others which may be made productive." Quite the contrary, such an exportation of precious metals would contribute to the development of those countries to which the metals were exported. That is, economic growth would occur in those countries exporting goods in proportion to the amount of precious metals imported; the increase in export sales would increase investment opportunities, employment, etc. For the country exporting precious metals, on the other hand, domestic sales would fall in proportion to the amount of bullion and coin exported. Likewise, in contrast to Ricardo's view, the goods imported would no doubt be consumer goods, not capital goods. Capital goods would not be imported for the simple reason that investment opportunities would be poor due to the fall in the value of domestic sales. Only if the goods imported in exchange for the specie be of the sort on which the labourer depends for his subsistence could this exchange be considered profitable (see Chap. IV).

In terms of the model, Ricardo's position would appear to be correct but for the wrong reason. According to Ricardo,

the establishment of the bank and the consequent issue of its notes therefore, as well as the discovery of the mine, operate as an inducement to the exportation either of bullion or of coin, and are beneficial only in as far as that objective may be accomplished. This position can be defended without adopting his views on the supposedly beneficial effects on trade of the exportation of specie. That is, a restriction on the exportation of specie would produce a permanent inflation of currency together with the attendant effects--
the demise of money as a store of value, and the decline of export sales. So it is true, as Ricardo suggests, that the exportation of bullion or coin is desirable to the extent that such exportation would restore equilibrium. All of this may be maintained without the erroneous conception of the advantages of the exchange of specie for commodities.

The policy of the Bank of England which prohibited the exchange of paper currency for specie, therefore, was, in effect, a restriction on the exportation of gold and bullion. As long as paper remains freely exchangeable for specie, according to Ricardo, the Bank "could never issue more notes than the value of the coin which would have circulated had there been no bank."85 The overissue of notes by the bank would automatically produce an outflow of gold and bullion similar to the outflow produced by the discovery of a mine. But "Parliament," according to Ricardo,

by restricting the Bank from paying in specie, have enabled the conductors of that concern to increase or decrease at pleasure the quantity and amount of their notes; and the previously existing checks against an over-issue having been thereby removed, those conductors have acquired the power of increasing or decreasing the value of the paper currency.86

The policy of restricting the free exchange of paper for bullion is therefore the cause of the depreciation of paper currency.

Succinctly stated, once again, it is Ricardo's view that the policy of the Bank of England discriminated against the accumulation of wealth in the form of money:

The extraordinary powers with which they are entrusted enable them to regulate at their pleasure the price at which
those who are possessed of a particular kind of property
called money, shall dispose of it. The Bank directors have
imposed upon these holders of money all the evils of a maxi­
mum . . . . By what an insecure tenure is property consisting
of money or annuities paid in mondy held?57

Fearing the "disastrous consequences to the trade and commerce
of the country" of either a total failure of paper credit or of recourse
to its limitation as a correction to its depreciation, Ricardo pro­
posed a moderate course.

The remedy which I propose for all the evils in our currency,
is that the Bank should gradually decrease the amount of their
notes in circulation until they shall have rendered the remain­
der of equal value with the coins which they represent, or, in
other words, till the prices of gold and silver bullion shall
be brought down to their mint price.88

Once established, this equilibrium would be most easily
maintained, according to Ricardo by maintaining the free exchange
of paper for specie which would permit the free flow of gold and
silver into and out of the country. This flexibility is most
advantageous, in his view, as it allows for a multitude of discrete
decisions to be made by individuals within the community, rather
than imposing a single decision, made by Parliament or the Bank
directors, on the community:

The exportation of the specie may at all times be safely
left to the discretion of individuals; it will not be exported
more than any other commodity, unless its exportation should be
advantageous to the country. If it be advantageous to export
it no laws can effectually prevent its exportation. Happily
in this case, as well as in most others in commerce where there
is free competition, the interests of the individual and that
of the community are never at variance.89
Summary: The Principles of Free Trade Established

As we have seen, Ricardo's theory of money was developed in response to a vexing question of national policy: should the Bank of England be required to redeem its specie and notes in bullion upon demand? The original Act restricting the convertibility of specie and notes was passed in 1797, at a time when the gold reserves of the Bank were diminishing due to the mounting pressure of the Government on the Bank for advances to meet its war needs. As has been noted, it was only after the Bank Restriction that the Bank of England was able to resume its previously great role of providing short-term financing for the war. The Bank Restriction, then, was the direct product of need of the Government for the finances to conduct the war. And it was against this policy that Ricardo was to argue so vigorously.

Ricardo's theoretical argument, that only a free exchange between all the components of the currency—bullion, specie and notes—would insure the national welfare, called into question the propriety of the Government's arrangement with the Bank for financing the War. Indeed, Ricardo seemed almost oblivious to the effects of the War on the credit system of Great Britain. In this, as Silberling has noted, he remained consistent with his predecessors in the Bullionist school of writers. Referring to Lord King, whose Thoughts on the effects of the Bank Restriction was among the first of the Bullionist objections to inconvertibility, Silberling remarks: "King appeared to see but little connection between the Bank's position and the carrying on of a comprehensive war." John Wheatley, another early Bullionist writer,
took the same position:

Wheatley . . . argued in a similar vein: wars can be financed upon a convertible currency basis and without unusual use of the precious metals in remittances; even should political expediency demand exceptional remittances, an inexhaustible store of gold and silver can be assured by the simple device of keeping British prices sufficiently below the international level to cause a plentiful supply of export bills in the exchange market to meet any demand for remittances drawn on the foreign balances.92

Ricardo argued in much the same way. The War was not a sufficient condition to authorize the suspension of convertibility:

When the order of council for suspending the cash payments became necessary in 1797, the run upon the Bank was, in my opinion, caused by political alarm alone, and not by a superabundant, or deficient quantity . . . of their notes in circulation.

. . . No prudence on the part of the directors could perhaps have averted it: but if their loans to government had been more limited; if the same amount of notes had been issued to the public through the medium of discounts; they would have been able, in all probability, to have continued their payments until the alarm had subsided . . . . It was then owing to the too intimate connection between the Bank and government that the restriction became necessary, it is to that cause too that we owe its continuance.93

Thus, according to Ricardo, the suspension of convertibility, aside from being unnecessary, was unduly profitable to the managers of the Bank. The government had no inducement to reform this policy because of the ready cash reserves supplied to it by the Bank. And the Bank managers, because of their profits, were similarly indisposed:

It must, I think, be allowed, that the war, which has pressed heavily on most of the classes of the community, has been attended with unlooked for benefits to the Bank; and in that proportion, to the increase of the public burdens and difficulties have been in the gains of that body.

The restriction of cash payments of the Bank, which was the effect of the war, has enabled them to raise the amount of their notes in circulation from twelve millions to twenty-eight millions; whilst at the same time, it has exonerated them from all necessity of keeping any large deposit of cash and bullion, a part of their assets from which they derive no profit.
The war too has raised the unredeemed public debt, of which the Bank have the management, from 220 to £830 millions; and not withstanding the reduced rate of charge, they will receive for the management of the debt alone, in the present year, 277,000 £, whereas in 1792 their whole receipt on account of the debt was 99,800 £.

It is to the war that the Bank are also indebted for the increase in the amount of public deposits. In 1792 these deposits were probably less than four millions. In and since 1806 we know that they have generally exceeded eleven millions.

Thus the Bank, according to Ricardo, had been granted all of the privileges of a monopoly, privileges that were detrimental to the rest of the community, especially to the interests of monied men.

His vigorous opposition to the Bank Restriction first, as a pamphleteer and, later, as an M.P., sought to establish the principles of free trade as the fundamental axiom of national policy in the field of money and credit. He would later argue, as we shall see, for the same policy in the field of foreign trade. It was Ricardo's firm conviction that legislative restrictions on the free flow of commerce were inimical to progress; that is, they artificially restricted the accumulation of wealth. Indeed, it was his opinion, that such commercial restrictions were the chief cause of war. Wars were the result of national policies designed to protect domestic industries. Free trade, therefore, was seen as a panacea for the ills of Europe. Through free trade the progress of mankind was assured.

This general attitude, given theoretical justification first in his pamphlets on the currency question and later, as we shall see, in his pamphlets on the corn law controversy, is perhaps nowhere more explicitly stated than in a letter written to Hutches Trower two years before his death. Responding to a previous letter from Trower,
who had inquired of his opinion about the possibilities that war would once again break out in Europe, Ricardo laments:

I cannot but flatter myself with the hopes of a continuance of peace in Europe—the agitations which at present exist will I think subside, and we shall witness a general course of prosperity. When our purses are again filled indeed, we may as usual become quarrelsome, but I hope nations are becoming wiser, and are every day more convinced that the prosperity of one country is not promoted by the distress of another—that restrictions on commerce are not favourable to wealth, and the particular welfare of each country, as well as the general welfare of all, is best encouraged by unbounded freedom to trade, and the establishment of the most liberal policy. I must do our ministers justice to say I believe they view these questions in their true light and would make great improvements in our commercial code if they were not thwarted and opposed by the narrow and selfish policy of the particular interests which are so powerfully exerted in the H. of Commons to check improvement and support monopolies.—

* * *

Thus Ricardo's theoretical justifications of the principles of free trade in the field of monetary theory were designed to demonstrate the integral relationship between the free exchange of the components of the currency—bullion, specie, and notes—and the accumulation of wealth. Money, as a store of wealth, is secure only when there is relative certainty that its value will not depreciate over time. Rapid fluctuations in the value of currency are inimical to the accumulation of wealth due to the uncertainty, or risk factor, which such fluctuations induce into investment opportunities. And, from Ricardo's perspective, the best guarantee of the long-run stability of the currency was the free market between the components of the currency tied, ultimately, to the international gold standard. The Bank Restriction amounted to an interference with this self-regulating mechanism, thus threatening the stability of English currency
Such "interventionism" in the field of monetary affairs was correctly perceived by Ricardo to be a fundamental threat to the integrity of a market economy (one in which the basic decisions that effect the allocation and distribution of resources are controlled by those who own property). The Bank Restriction, because it created financial instability, amounted to an interference with the medium through which the propertied class exerted power. Just as important as a free-market in labour, then, was the free market in currency. "This was the beginning of that unshakable belief in the automatic steering mechanism of the gold standard without which the market system could never have got under way."96

Before turning to an analysis of the philosophical roots of Ricardo's policy orientation of free trade, it remains to examine one further policy position adopted by Ricardo—his publicly expressed opposition to the corn laws. Just as Ricardo was hostile to domestic trade barriers, he stood adamantly opposed to the international restriction on trade. And for the same reason; such interference disrupted the ability of the capitalist class to structure the socio-economic system. In other words, it disrupted the market framework within which, and only within which, the capitalist class could exercise power. Consistent with his position on the poor laws and the Bank Restriction, Ricardo argued in Parliament against the corn laws which restricted the free importation of small grains. If the Bank Restriction was a threat to the stability of the medium through which the capitalist class exercised power, restrictions on the free importation of small grains was a threat to the
very source of that power itself—cheap labour. The poor laws threatened the supply of labour, the corn laws increased the price of labour. Neither was acceptable.
FOOTNOTES


3 Ibid., p. 431.

4 With respect to the quality of the literature, Viner remarks: "The germs at least of most of the current monetary theories are to be found in it. It embodies the first detailed analysis of the relationships between currency phenomena and international balances, exchange rates, and price levels, under both metallic and non-convertible paper currencies. Foreign exchange theory is carried substantially forward, and the theory of the mechanism of adjustment of international balances is advanced substantially beyond the stage at which it was left by Hume. There are also discussions of a truly pioneer character of the functions of a central bank in a complex credit economy with respect to the maintenance of international monetary equilibrium and of internal business stability." Viner, *Studies in the Theory of International Trade*, p. 120.

5 These groupings do not preclude important differences of opinion within each group. Ibid.

6 Other works written in response to similar phenomena with respect to the Bank of Ireland include John L. Foster's, *An essay on the principle of Commercial exchanges*, Henry Parnell's, *Observations upon the state of currency in Ireland*, and Lord Lauderdale's *Thoughts on the Alarming state of the currency*. Ibid., p. 121.

7 "Ricardo made but few additions to the analysis of his predecessors, and . . . on some important points he committed errors from which some of the earlier supporters of the bullionist position had been free. But the comprehensiveness and the force and skill of his exposition and the assurance and rigor of his reasoning made him at once the leading expositor of the bullionist position. It was largely through Ricardo's writings, moreover, that the bullionist doctrines exercised their influence on the subsequent century of monetary controversy." Ibid., p. 122. This is also the opinion of Jacob Hollander and Norman J. Silberling. Hollander, *op. cit.*, 160.

8See Asa Briggs, The Making of Modern England, 1783-1867 (New York: Harper and Row, 1965), p. 167. See also Silberling's calculations of comparative financial operations as between the Napoleonic Wars and World War I. "... We conclude that the pecuniary financial operations in the recent war were on a scale about fourteen times that of the Napoleonic Wars." Norman J. Silberling, "Financial and Monetary Policy of Great Britain During the Napoleonic Wars, I," Quarterly Journal of Economics, p. 221.


11It should be noted that at no time did the Act, or any subsequent renewal of it, make Bank notes legal tender. Likewise, at no time was the Act construed to apply to the country banks. Norman J. Silberling, "Financial and Monetary Policy of Great Britain During the Napoleonic Wars," II, p. 399.

12Ibid.

13Ibid., p. 400.


16Ibid., p. 174.


19Supra., p. 118.

20Supra., p. 149.
21 Supra., p. 120.
23 Ibid., p. 126. This position was not adhered to dogmatically however. "The bullionists were prepared to make several qualifications to this reasoning and therefore to concede that the existence of a premium on bullion over paper, or of a discount of sterling exchange from metallic parity, was not an absolute proof of excess issue, and was strong presumptive evidence of excess issue only if it was substantial and prevailed for a considerable period of time." Ibid., p. 127.
24 Ibid., p. 126.
25 Ibid.
26 Ibid.
27 Both of these respective positions, according to Viner, were easily met by Ricardo. "Ricardo was able to show that even if the data were as alleged—as they often were not—they did not refute his argument. He was claiming not that the currency had been increased during the Restriction, but that it existed in an amount greater than could have been maintained at that time, other things remaining the same, if convertibility had been maintained." Ibid., p. 136.
28 Ibid., p. 137.
29 Piero Sraffa, ed., Works and Correspondence, III, 4.
30 Ibid., p. 21.
31 Ibid., p. 4.
32 Ibid., p. 15.
33 Ibid.
34 Letter to Mill, 1 Jan. 1811, Ibid., VI, 15.
36 For a complete explanation of this position see Ricardo's initial letter to the Morning Chronicle. Ibid., pp. 19-20.
37 Ibid., p. 132.
Ricardo's explicit reasons for this position can be seen in his explanation of foreign exchanges contained in his letter to the Morning Chronicle of 6 Sept. 1810. Ibid., pp. 133-135.

Ibid., p. 136.

Ibid., p. 141.

Ibid., p. 143.

Ibid., p. 152.

Ibid., p. 161.

Ibid., p. 160.

There is some doubt as to the exact date of publication. Murray's advertisement in the Morning Chronicle of Tuesday, 26 Dec. 1809, announced 'On Thursday next will be published, The High Price of Bullion ..., and Bosanquet (Practical Observations, p. 2) refers to it as published late in 1809. However, the first advertisement under the usual heading 'This day is published' occurred in The Times of Saturday, 30 December; even this may have been premature, as it gave no price, whereas the practice was to do so on actual publication. The earliest advertisement stating the price (2s) which has been found is that published in The Times of 3 Jan. 1810. Thus, publication may have been delayed a few days into the new year, which would agree with the date 1810 on the title page of the pamphlet." Ibid., p. 5, note 2.

Ibid., p. 6.

Compare Sraffa's interpretation. Ibid., X, 91-94.

Ibid., III, 6.


"Note on 'Economical and Secure Currency,'" Ibid., IV, 47.


Supra., p. 128.

David Ricardo, Proposals for an Economical and Secure Currency, Piero Sraffa, ed., Works and Correspondence, IV, 54.

Ibid., p. 55.

Ibid.

Ibid., p. 54.

Ibid., p. 55.

Ibid., p. 56.

Ibid., p. 55.

Supra., p. 17.

David Ricardo, Proposals for an Economical and Secure Currency, Piero Sraffa, ed., Works and Correspondence, IV, 55.

Supra., p. 140.

David Ricardo, Proposals for an Economical and Secure Currency, Piero Sraffa, ed., Works and Correspondence, IV, 56.

Ibid.

Ibid., p. 58.

Ibid.

Ibid., p. 57.

Ibid.

Ibid., p. 56.

Ricardo's first explicit plan for rectifying the mismanagement of the currency appeared as the "Appendix" to the 4th edition of his *High Price of Bullion*, published in 1811. He later developed this plan in his *Proposals for an Economical and Secure Currency* (see Vol. VI, pp. 65-141) published in 1816. The general outline of the plan, which called for the gradual reinstatement of convertibility, can be seen in the following letter to George Tierney, a Whig leader who had been a member of the Bullion Committee:

"I am encouraged by my friend Mr. Sharp, to submit to your consideration some remarks on the means which might be advantageously adopted, first, to arrest the progress of the depreciation of our currency, and secondly to restore it to its standard value.

"The first of these objects appears to me, in the circumstances in which we are placed, to be the most pressing and perhaps the most important. Depreciation cannot be effectually checked by any other means than by depriving the Bank of the power which they at present possess of adding indefinitely to the amount of their notes. This might be done in a direct manner, by limiting the amount beyond which their paper should not be issued; but it has been plausibly urged against such a measure that occasions may arise in which sound policy may require a temporary augmentation of bank paper, and to deprive the Bank of the power of increasing their notes at such periods might be the cause of considerable distress and difficulty to the mercantile classes."
"This argument does not appear to me to have as much weight as those who advance it imagine. The objection however may be obviated by the measure which I beg leave to recommend; it is simply to oblige the Bank to sell gold bullion to any purchaser of not less than 50, 100, or 200 ounces at a fixed price somewhere about the present market price,—such regulation to continue for six months.

"This would secure the public against any further depreciation of Bank notes as the Bank would be obliged for their own safety to keep the amount of their circulation within the present limits whilst commerce and credit continued in its present state, to prevent such a rise in the price of bullion as would make it profitable to individuals to purchase it of them for exportation;—and if a greater circulation were required from the operation either of increased commerce, or of embarrassed credit, the bank might augment their issues without producing any effect whatever on the price of bullion, and consequently without exposing the Bank to any inconvenience, or depriving the merchants of that increased accommodation, which might be essential to their operations.

...It cannot be supposed that the Bank would willing do anything which might be hurtful either to public or to private credit. Whatever my opinion of their mistakes may be no one can be more persuaded than I am of the general integrity of their motives. If however from a mistaken view of the subject they should diminish the circulation too rapidly they might raise its value in a ratio which might involve individuals in much perplexity and distress. As well therefore as possessing a security against an undue increase of Bank notes for particular periods, it would be desirable that the Public should also be secured against a too rapid diminution of their amount. This object might be most fully attained by enacting that the Bank should be obliged to buy gold bullion (not less than a fixed quantity) during the whole period of the reduction of their notes, at a price not less than 2 - p\textsuperscript{2} oz under the price at which they were then selling. When they sold gold bullion at \£ 4.17. p\textsuperscript{f} oz, they should be obliged to buy at \£ 4.15.-. When they sold at \£ 4.15- they should buy at \£ 4.13. Thus would complete security be obtained for a reduction of the currency without any danger of the reduction being made by just as gradual as Parliament should think expedient." Letter to Tierney, 11 Dec. 1811, Ibid., VI, 67.


90 Supra., p. 113.

92 Ibid., p. 417.


95 Letter to Trower, 4 July 1821, Ibid., IX, 1.

CHAPTER XV

DAVID RICARDO AND THE CORN LAW CONTROVERSY: THE DEVELOPMENT OF RICARDO'S THEORY OF VALUE

It is not money that renders commodities commensurable. Just the contrary. It is because all commodities, as values, are realized human labour, and therefore commensurable, that their values can be measured by one and the same special commodity, and the latter be converted into the common measure of their values, i.e., into money. Money as a measure of value, is the phenomenal form that must of necessity be assumed by that measure of value which is immanent in commodities, labour time. (Karl Marx. Capital)

. . . Money bags must be so lucky as to find within the sphere of circulation, in the market, a commodity, whose use-value possesses the peculiar property of being a source of value, whose actual consumption, therefore, is itself an embodiment of labour, and, consequently, a creation of value. The possessor of money does find on the market such a special commodity in capacity for labour or labour power. (Karl Marx. Capital)

Background to the Corn Law Controversy

If the theories expressed by Ricardo in his early works—chiefly, The High Price of Bullion and Proposals for an Economical and Secure Currency—are traceable to his policy positions on the Bullion question, his later works can be traced directly to the corn-laws of 1815 and the public controversy that this legislation provoked. Ricardo lived to see Parliament adopt his views on the currency question, but Parliament did not rescind its restrictions on the importation of small grains until 1846, twenty-three years after his death. His immediate recognition was secured by the role he played in removing the price
maintenance for gold, but his lasting significance is probably due more to his publicly expressed opinions on the corn law, and the theories that he developed to explain these opinions. Although he did not live to see the corn-laws legislation removed from the statute books, his followers—Mill and McCulloch in particular—continued to fight for the removal of trade restrictions and, in so doing, propagated the faith.

The corn laws of 1815 were not unique in the history of English trade restrictions. As one commentator has pointed out, "The corn-trade was subjected to legislative interference for many centuries." As early as 1360, prohibitions on export trade are recorded and these prohibitions formed the chief governmental restrictions on trade up until 1793, although some import restrictions are also recorded. In the case of corn, however, not only were export restrictions removed, but bounties to stimulate exports were enacted in the last quarter of the eighteenth century. Britain, during the 100 years between 1673 and 1773 was a leading agricultural nation. But at the outset of the nineteenth century, all this had changed.

... New industries had followed on a period of invention; a town population was growing up, and the cotton, iron, and coal trades were developing: Great Britain was becoming a manufacturing country and an exporter of cotton goods.

By 1793, Britain ceased to be an exporter of grain and had, in turn, begun to import agricultural products. This sequence of events led to the call for legislation to regulate or to check completely the importation of corn.

An Act of 1791 provided for the protection of domestic wheat
with an import duty of 24s 3d per quarter when British sales were below 50s. It also provided for a rapid decline in the amount of the duty as the price of domestic wheat increased (2s6d when the price was between 50s and 54s, and 6d when the price exceeded 54s). The Act of 1804 raised the limit of 50s to 63s. In neither case was the legislation excessively prohibitive. As Edwin Cannan reports, between 1795 and 1802 the price of wheat was usually substantially above 50s, and after 1804 the price remained above the new limit of 63s. But, by 1813 the price of corn had become highly unstable.

From 1813 to 1815 the fortunes of the landed interest, particularly the farmers, suffered first as a result of an immense crop (followed by a drastic fall in prices) in 1813, and second from a harvest of poor quality in 1814 and renewed imports of foreign corn.

Figure 1 illustrates the sharp decline in prices that began in the latter half of 1812.

These reverses in the price of grain led to mounting pressure from the agricultural community for legislation to protect the price of grain.

A select committee of the House of Commons, appointed to inquire into the corn trade, gravely alleged in May, 1813, that prices had been low till 1765 because till that time exportation was encouraged and importation practically prohibited, and that they had since been high because importation had been encouraged and exportation restrained.

Armed with this rather confused understanding of price relationships, the committee recommended the enactment of legislation providing for a duty of 24s 3d on imported wheat when the home price was below 105s 2d.—this to be in effect until February, 1814. After this date the committee recommended the imposition of the duty "whenever the
FIGURE 1

MONTHLY AVERAGE PRICE OF WHEAT AND ANNUAL NUMBER OF ENCLOSURE ACTS, 1793-1815

home price was not 33 1/3 per cent above the average price of the
twenty years immediately preceding.\footnote{7}

The rationale for the committee's action was stated forcefully
by the chairman, Sir Henry Parnell. He stated, in part, that the
committee had

been influenced by no other motive than that of a strong sense
of the danger of continuing to depend upon our enemies for a
sufficient supply of food, and of the impolicy of sending our
money to improve other countries, while we have so much of our
own lands that stand in need of the same kind of improvement.
The whole object of their report is merely to prove the evils
which belong to this system as it now exists, and to obtain such
an alteration in the law as shall draw forth our own means into
operation of growing more corn, by increasing the capital that
is now vested in agriculture. If they succeed in this they will
secure a greater production of grain, at the same time with
diminished expenses in producing it, and at reduced prices to
the consumer . . . .\footnote{8}

The opposition to the proposed legislation was vigorous.
Indeed, in 1814, the opposition in the form of letters, petitions and
mob violence was so great that the legislation failed to pass the House
of Commons. By the following year, however, the pressure from the landed
interests had become so great that--the agitations notwithstanding--an
act restricting the importation of grains was passed with little
difficulty.

The act was offensive not only to the London mob but to some
very powerful manufacturing and commercial interests.

The new law met with the combined hostility of manufacturers
and factory workers, united in the belief that the price of
bread might have been lower but for the import prohibition of
cheap corn.\footnote{9}

The factory workers, quite obviously, saw the Act as an
increase in the price of food which they could ill afford, while the
manufacturers concerned themselves with the impact of the legislation on their costs of production.

Manchester mill owners protested that the bill would raise the price of labour and handicap manufacturers in their conquest of foreign markets. Westminster petitioners maintained that it was "wiser to import [corn] from countries where it can be grown at a low price . . . than to diminish the national capital and increase the price of bread in attempting to force it from barren spots at home by an enormously expensive method of cultivation."\(^{10}\)

The oppositionists were represented—oddly enough—by twenty-one dissenters in the House of Lords who entered a written protest in their Journal on behalf of all those who were desirous of lower food prices. But it is noteworthy that this was the chief opposition, the House of Commons being dominated by the landed interests. And the influence of the landed classes on the legislative process is further proven by the fact that the corn law of 1815 remained on the statute books for thirty-one years.

The class character of the dispute which thus arose around the passage of this legislation has been noted by more than one observer:

This range of arguments, most of which were to be repeated time and time again during the period from 1815 to 1846, shows how significant the corn law question was from the start in the history of public opinion. Different interests and classes took up different stances. The landlords, who had done so well during the war, welcomed the corn law which they believed would help to maintain their high war-time rents. They claimed to speak also on behalf of the tenant farmers and small freeholders, and even of agricultural labourers, although there were conflicts of interests between landowners and tenants and between farmers and landless labourers. Manufacturers disliked the bill, but they could scarcely use the argument that it would keep wages too high if they wished to gain the support on this issue of skilled artisans and unskilled workers. Thus, English society in 1815 was too complex in its structure to permit an easy and straightforward antagonism between town and country; other antagonisms cut across the old dividing line.\(^{11}\)
These subtleties, however, were not reflected in the theories which were propagated by either side in the literature of political economy. To the contrary, the literature of political economy focused on the cleavages that were perceived to exist between the agricultural classes and the manufacturing classes, on the one hand, and the labouring classes and the manufacturing classes, on the other. The corn law of 1815 thus occasioned a great outpouring of controversial literature with each of the two dominant factions attempting to fix the blame for the state of the economy on the theories propagated by the other faction. The leading works on the subject all appeared within a very few days of one another. In order of the date of publication they were, respectively, Malthus' Inquiry into Rent (3 February 1815) and his Grounds of an Opinion (10 February 1815), West's Essay on the Application of Capital to Land (13 February 1815), Torrens' Essay on the External Corn Trade (24 February 1815), and Ricardo's Essay on the Influence of a Low Price of Corn on the Profits of Stock (24 February 1815). Malthus became the chief spokesman for the protectionist school while Ricardo became the chief spokesman for the anti-protectionists, even though his work appeared after West's and largely reflects the arguments made by West.

As Edwin Cannan has pointed out, the positions taken in the literature of political economy on the subject of import restrictions on grain were largely consonant with the prevailing attitudes of the respective classes. As we have seen above, the effect of the Acts of 1791 and 1804 was not to restrict the importation of small grains. In fact, because of the high price of domestic grain, importation during
these years was virtually free.

It was perhaps only natural that landlords and farmers should deduce from these facts the conclusion that free importation was no remedy for high prices, and that the high prices would eventually reduce themselves, by causing such an extension of cultivation that a full supply of food would be produced at home.14

This general line of thinking was countered by the anti-protectionists—West and Ricardo in particular—who based their observations on a different set of facts, the relationship between the price of grain and the amount of land in cultivation (see Figure 1). On the basis of this information there appeared to be a close correlation between the price of grain and the amount of marginal land brought under cultivation (enclosures).

... It would have been surprising if no economist had generalized from the twenty years under review, and declared that the increase of population and wealth always necessitates recourse to more expensive, or what is the same thing, less productive agriculture.15

Ricardo argued on behalf of the dissenters that it was the profits of the farmer that regulated the profits of all other trades while Malthus opposed him in this view arguing that the profits of the farmer no more regulated the profits of other trades than the profits of manufacturing regulated the profits of agriculture.

The ultimate significance of the positions adopted by Malthus and Ricardo involves the conception of "diminishing returns." That concept, originally associated with agricultural production, asserts that the costs of production increase as land of increasingly inferior quality is brought into production. Assuming a given price for agricultural products, a point will be reached where it is no longer
profitable to cultivate marginal lands because of the increasing costs of production associated with that land. Ricardo used this general theory to demonstrate that, as lands of inferior quality were brought into cultivation to meet the demands of an ever-expanding population, the price of agricultural products would necessarily increase, thereby also increasing the costs to the manufacturers who employed labourers dependent on food for their daily subsistence. Hence, in Ricardo's mind, as the price of food increased, the price of other products and services increased similarly. The ultimate effect was to decrease the profits of all trades. Malthus, whose theory of population led to the notion of diminishing returns, in the first place, disagreed with Ricardo. Diminishing returns were an inevitable feature of economic life best checked not by free trade but by technological advances.

The Writing of the Principles

Any understanding of Ricardo's theory of value embodied in the Principles of Political Economy and Taxation must begin with an understanding of Ricardo's first attempt to deal with the question of value, albeit in a fragmentary fashion, in his Essay on the Influence of a Low Price of Corn on the Profits of Stock. That the Essay on Profits was the forerunner of the Principles of Political Economy is evident from Ricardo's correspondence between the publication date of the Essay (February 24, 1815) and that of the first edition of the Principles (April 19, 1817). In a letter of August 18, 1815, to J. B. Say, Ricardo remarks of his "pleasure in reading and studying works on
political economy" and requests Say's criticism of his Essay on Profits remarking that "Mr. Mill wishes me to write it over again more at large." ¹⁷

What began as an effort to rewrite the Essay on Profits was soon transformed, once again largely through the influence of James Mill, into a general treatise on political economy. Mill's insistence that Ricardo devote his full attention to writing an expanded work in the field of political economy is evident in his letter to Ricardo of 23 August 1815:

> When I am satisfied . . . that you can not only acquire . . . reputation, but that you can very greatly improve a science on which the progress of human happiness to a singular degree depends; in fact that you can improve so important a science far more than any other man who is devoting his attention to it, or likely to do so, for Lord knows how many years--my friendship for you, for mankind, and for science, all prompt me to give you no rest, till you are plunged over head and ears in political economy. ¹⁸

By October, 1815, Mill is writing to Ricardo of the expanded work as a definite commitment.

> I expect you are by this time in a condition to give me some account of the progress you have been making in your book. I now consider you as fairly pledged to that task. ¹⁹

Later in the same month Ricardo writes to Trower of his determination to elucidate his views on the principles of rent, profit and wages:

> These principles are so linked and connected with every thing belonging to the science of Political Economy that I consider the just view of them as of the first importance. It is on this subject, where my opinions differ from the great authority of Adam Smith Malthus, ²⁰ that I should wish to concentrate all the talent I possess, not only for the purpose of establishing what I think correct principles but of drawing important deductions from them. ²⁰
The difficulties encountered by Ricardo in the course of writing the Principles of Political Economy are chronicled in his letters of 1815-1816. He complains consistently of his difficulties in composition. Even his original and less ambitious project of rewriting the Essay on Profits causes Ricardo to remark: "I fear the undertaking exceeds my powers." In reply to a letter in which Ricardo complained of the inability to set his thoughts down correctly, Mill replies:

... There is no obstacle to your writing, but this want of confidence in your own powers ... I therefore ... lay upon you my commands to begin to the first of the three heads of your proposed work, rent, profit, wages ... without an hours delay. If you entrust the inspection of it to me, depend upon it I shall compel you to make it all right, before you have done with it.

But as late as February, 1816, Ricardo is writing to Malthus: "I make no progress in the difficult art of composition. I believe that ought to be my study ..." In May he indicates to Malthus that his work had ceased completely for two months and that it was unlikely that he would ever continue the project. Nevertheless, by October, 1816, Ricardo had completed the manuscript covering the first seven chapters of the Principles.

As Sraffa points out, Ricardo was also bothered by conceptual difficulties. These difficulties revolved around his efforts to produce a general theory of value out of the incomplete conceptualization of the problem in the Essay on Profits. Actually, it is apparent that, as of October and November, 1815, Ricardo was not even thinking in terms of producing a general theory of value. The first mention of value as a separate topic of inquiry does not occur until December 30, 1815, when,
in a letter to Mill, he remarks of the difficulties he experienced in explaining "price."

I know I shall soon be stopped by the word price . . . . Before my readers can understand the proof I mean to offer, they must understand the theory of currency and price. They must know that the prices of commodities are affected two ways one by the alteration in the relative value of money, which affects all commodities nearly at the same time,--the other by an alteration in the value of the particular commodity, and which affects the value of no other thing, excepting it enter[er] into its composition.26

Thus began Ricardo's speculations on the subject of value.

If Ricardo had come to value theory late in his investigations of political economy, the subject bothered him considerably during the year preceding the publication of the first edition of the Principles of Political Economy. He remarks repeatedly in his letters during this period of his difficulties with a general theory of value. To Malthus on the 7th of February, 1816, he writes.

I have not thought much on our old subject,--my difficulty is in so presenting it to the minds of others as to make them fall into the same chain of thinking as myself.--If I could overcome the obstacles in the way of giving a clear insight into the origin and law of relative and exchangeable value I should have gained half the battle.--27

Later in the same year (Oct. 5) he is again writing to Malthus of his inquiries respecting value theory this time pointing out that his own opinions on the subject had changed:

. . . I shall be glad to see in a connected form your matured opinions on the progress of rent, profits, and wages, and in what manner they are affected by the increasing difficulty of procuring food, by the increase of capital, and the improvement of machinery. I fear we shall not agree on these subjects, and I should be very glad if we could fairly submit our different views to the public, that we might have some able heads engaged in considering it. Of this however I have little hope for though I feel strongly the truth of my theory I cannot succeed in stating
it clearly. I have been very much impeded by the question of price and value, my former ideas on these points not being correct. My present view may be equally faulty, for it leads to conclusions at variance with all my preconceived opinions. I shall continue to work, if only for my own satisfaction, till I have given my theory a consistent form. 28

Despite Ricardo's protestations that he is unable to communicate his ideas clearly, the source of his difficulties was more likely a lack of clarity in his thinking than in his writing. Ricardo, in fact, was accomplished in the art of exposition. His chapter "On Value" in the Principles of Political Economy therefore stands as an exception to the general rule; it is uncharacteristically fuzzy both in comparison to his other writings and to other sections of the same work. The difficulty with this chapter, no doubt, was the inability he experienced in formulating a consistent theory of value. The transition from the opinions he expressed on the subject of value in the Essay on Profits to those embodied in the Principles was not complete until the very last moment, and this probably accounts for the ambiguity of the theory.

As noted above, the manuscript of the first seven chapters of the Principles was completed in October, 1816. As can be seen in his aforementioned letter to Malthus of October 5, 1816, however, Ricardo only then mentions that he has experienced a change in his thinking on the subject of value, saying that "my present view . . . leads to conclusions at variance with all my preconceived opinions." This change of view is confirmed by Ricardo in his cover letter to Mill which accompanied the draft of the first seven chapters on October 14th.

I have been beyond measure puzzled to find out the law of price. I found on a reference to figures that my former
opinion could not be correct and I was a full fortnight pondering on my difficulty before I knew how to solve it. This change in opinion can therefore be seen as the underlying cause of the vagaries of the first chapter of the Principles.

Because of the obvious uncertainty in Ricardo's own mind over this initial effort to produce a general theory of value, and because Ricardo saw fit to change certain aspects of his chapter "On Value" in successive editions of the Principles, a debate has arisen over the nature of the changes introduced. As Sraffa points out, the debate is largely the product of Jacob Hollander's widely disseminated article entitled "The Development of Ricardo's Theory of Value" in which Hollander attempts to demonstrate that Ricardo's theory of value underwent several changes from the time of its original exposition until his death. There are, according to Hollander, "three clearly defined phases in Ricardo's treatment of value. . . ." The first he finds to be coincident with the bullion controversy and consists of an "exposition of Adam Smith's original concept of value." The second phase paralleled the corn law discussions and the subsequent debate over related issues of public policy and is embodied in the first chapter of the original edition of the Principles. And the third phase, consisting of a debate over the adequacy of labour as a measure of value, "was still in progress at the time of his death." Sraffa and Hollander would appear to be in agreement with respect to the fact that a change did occur in Ricardo's opinions between the publication of the Essay
on Profits and the first edition of the Principles. The aforementioned letters of Ricardo to Malthus and Mill just prior to publication of the first edition leave little to the imagination in this respect. Sraffa differs with Hollander, however, in the interpretation of later changes introduced by Ricardo in successive editions of the Principles; Sraffa believes that Ricardo's doctrine was essentially consistent throughout, whereas Hollander feels that fundamental conceptual changes are evident.

Hollander's position, briefly, is that Ricardo's understanding of the concept of value was on the verge of change for the first time in 1815. According to Hollander, it had become apparent to Ricardo that the several propositions that he put forth during the course of the corn law controversies were in contradiction to his previous conception of value. These propositions were in short (1) that lower profits were the long-run consequence of one factor, that being higher wages; (2) that McCulloch's proposal to reduce the interest on the National Debt was inequitable and unjust; and (3) that the free importation of corn would not result in a fall in the general price level.

It was to give reinforcement to such definite propositions that Ricardo developed and extended his original concept of value. The prime features of his modified exposition were disagreement with the doctrine that every rise in wages must necessarily be transferred to the price of commodities, and, second, demonstration of the converse dictum, that higher wages were actually compatible with lower prices. 33

To demonstrate the validity of this "modified exposition" became Ricardo's principal task in the initial chapter "On Value" in the 1817 edition of the Principles.

To do this however, as Hollander notes, it required that
Ricardo attack one of the most well-received doctrines in political economy; that high wages necessarily led to high prices. And to accomplish this Ricardo was led to challenge Smith's analysis of the role of capital and land on relative values. Whereas Smith differentiated between "values" determined in "a rude state of society" as opposed to "values" determined in civil society, Ricardo made no such distinction. By adhering to "embodied labour" as the sole measure of value, Ricardo could sustain his position that wages had no effect on prices.

If "embodied labour" could thus be established as a universal measure of value, Ricardo's purpose, to prove that prices did not necessarily rise or fall as wages rose or fell, was attained. For these reasons, according to Hollander, the purpose of the chapter "On Value" in the first edition of the Principles became to investigate the influence of the accumulation of capital and the payment of rent on the principle of "embodied labour" as the measure of value. The thrust of his analysis was, then, to minimize or negate rent and profits as elements in the equation.

The argument rather than the conclusion drew the most criticism. Ricardo found himself called upon not to establish any such novel proposition as that prices sometimes fell as wages rose, but, more fundamentally to vindicate "embodied labour" as the soundest theoretical and the best practical measure of value. And this, according to Hollander, led to a second fundamental change in Ricardo's position which was given public expression, first, in the second edition and, later, in the third edition of the Principles. According to Hollander, the initial appearance of the second edition in
1819 "contained textual changes which, although not vital, may, in the light of what had gone before, be regarded as highly significant."

The significance, as Hollander perceives it, is that Ricardo's emphasis had changed from a demonstration that high wages do not necessarily yield high prices to an examination of the measure of value. He furthermore notes that Ricardo was now willing to admit of more exceptions to his general rule and that, by the time of the appearance of the third edition in 1820, due to the attacks of Torrens and Malthus, his thinking showed further modification:

... The chapter "On Value" in the Principles of 1821 is in content and tendency very different from that in the original edition of 1817 and a conspicuous though logical advance, over that in the edition of 1819. Ricardo's purpose, first and foremost, was no longer to refute the proposition that higher wages were the cause of higher prices, but to show that embodied labour was the most practicable measure of value and that gold was its most serviceable standard expression.

With the appearance of the third edition, then, another major transformation in Ricardo's thinking was in the process of formation. If Ricardo continued to adhere to embodied labour as the best available measure of value, his stress was now on gold as its best empirical referent. Likewise, exceptions to the doctrine of embodied labour were no longer glossed over; rather they were dealt with at some length. Both of these tendencies, further amplified by Ricardo's discussion of value in his Notes on Malthus, gave concern to his friends. What transpired over the next several years was a lengthy controversy over the subject of value. The debate was three-sided. McCulloch and Mill continued to adhere to a very rigid conception of the labour
embodied theory. Malthus' Measure of Value was designed to reaffirm Adam Smith's labour commanded notion in contradistinction to the labour embodied theory. And Ricardo maintained against all parties to the dispute that no invariable measure of value was attainable.

Insofar as this final contribution of Ricardo to the value controversy possessed any distinctive characteristic, it was the prominence accorded gold as a practical rather than "embodied labour" as an ideal measure of value.38

The debate was still in progress at the time of Ricardo's death.

Thus, according to Hollander, it is possible to speak of Ricardo's development of a theory of value.

Far from being the rigid and definitive exposition which his critics have represented, the concept was distinctly a doctrinal growth, reflecting in its course the characteristic phases of Ricardo's mental history.39

Now it is to this which Sraffa objects, maintaining that "new evidence" permits a more complete analysis of the textual changes which occurred between the first and the third editions of the Principles. The "new evidence" in question consists of a letter to Mill of the 28th of December, 1818, which Sraffa purports clears away much of the misunderstanding on this subject. It is Sraffa's position that Hollander's interpretation of Ricardo is incorrect; that "the theory of edition 3 appears to be the same, in essence and in emphasis, as that of edition 1."40

Sraffa willingly admits that changes did occur between the first and the third editions of the Principles and that these changes were extensive, "little more than half of the final version (edition 3) of the chapter 'On Value' being found in the same form in edition 1."41
But, according to Sraffa, subsequent writers have misinterpreted the nature of the changes introduced by Ricardo into the subsequent editions. Whereas Hollander, and after him Cannan and others, saw the changes as a reflection of a "weakening" in Ricardo's resolve on the question of the constituent elements of value, Sraffa interprets those changes as "a series of modifications" designed to reflect a change in the choice of standard. At any rate, as Sraffa points out, Malthus, with whom Ricardo maintained extensive correspondence on this issue, did not consider the changes significant.42

Nor, for that matter, did Ricardo. On the 18th of November, 1818, Ricardo writes to Murray, his publisher, on the question of the nature of a second edition of the *Principles*.

I have not looked at my book since it was published and perhaps in reading it now I may discover some passages which I may wish to alter, but I am so bad a writer that I fear more to do harm than good by attempting any different arrangement, therefore I believe that I shall very soon be prepared for a second edition.43

Five days later, Ricardo posted the manuscript. His cover letter expresses Ricardo's own estimate of the changes he has made. "You will observe that there are a few very trifling alterations where I thought I could make my ideas more clear."44 He indicates that he has resubdivided chapter one to make it more clear, but thinks of his alterations as "insignificant." Writing to Mill on the same day, he indicates that Murray was in a rush to publish a second edition and that, therefore, substantial changes were out of the question. "I am afraid to make many alterations in it. With such an unskilful hand, the risk would be great that I should not improve it."45
Between the publication of the second edition and the third edition, as Sraffa points out, there is some indication of a weakening of Ricardo's position in his own mind. On the 13th of June, 1820, he writes to McCulloch:

I sometimes think that if I were to write the chapter on value again which is in my book, I should acknowledge that the relative value of commodities was regulated by two causes instead of by one, namely, by the relative quantity of labour necessary to produce the commodities in question, and by the rate of profit for the time that the capital remained dormant, and until the commodities were brought to market. Perhaps I should find the difficulties nearly as great in this view of the subject as in that which I have adopted.46

But this was evidently only a momentary view. As Sraffa notes, letters written in the intervening months demonstrate that Ricardo's position was substantially the same as that articulated previously. On October 9, 1820, in a letter to Malthus, Ricardo writes: "My first chapter will not be materially altered—in principle I think it will not be altered at all."47 And, in January of the following year, he writes to McCulloch: "I am fully persuaded that in fixing on the quantity of labour realised in commodities as the rule which governs their relative value we are in the right course. . . ."48

Thus, it is in Ricardo's endeavor to find an invariable measure of value that Sraffa finds the substantive alterations in his discussion of value.

The search for what has been called "the chimera of an invariable standard of value" pre-occupied Ricardo to the end of his life. However, the problem which mainly interested him was not that of finding an actual commodity which would accurately measure the value of corn or silver at different times or places; but rather that of finding the conditions which a commodity would have to satisfy in order to be invariable in value—and this came close
to identifying the problems of measure with that of the law of value.49

The two qualifications which account for the vast bulk of the changes between the first and the third editions of the Principles are therefore, according to Sraffa, not principally associated with the problem of value per se, but, rather, with the more practical problem of measuring relative value over time.50

That is not to say, as noted previously, that there were no changes introduced between the second and the third editions. Quite the contrary. Although his theory of value remained consistent with that expressed in the first two editions, the changes introduced in the third edition were, nevertheless, extensive. In addition to the changes mentioned above, one other major change deserves to be noted. Prior to the publication of the third edition, Ricardo had taken the position that the employment of machinery was mutually beneficial to all classes of society.

He had not expressed this view in the earlier editions of the Principles, and the only place where he had stated in print an opinion as to the effect of machinery upon labour was an incidental reference in the Essay on Profits where he alluded to "the effects of improved machinery, which it is now no longer questioned, has a decided tendency to raise the real wages of labour." But as he says at the beginning of the new chapter he had "in other ways" given support to those doctrines.51

The third edition thus contains major changes on this question. The changes, in fact, amount to an abrupt reversal of opinion. Ricardo now expressed the opinion that the introduction of machinery did have a detrimental effect on the working classes; that the expression of this opinion was not based on prejudice and error but rather on the accepted
principles of political economy itself.

* * *

We may thus, in conclusion, agree with George Stigler that, throughout his life, Ricardo held what amounts to an "empirical" theory of value. To recapitulate, most commentators would agree that the formative stages of Ricardo's theory of value occurred during the bullion controversy and received written expression in his various pamphlets and letters to the Morning Chronicle. The source of most of the controversy, as we have seen, revolves around the interpretation one assigns to the various changes introduced by Ricardo, first in the Essay on Profits and, later, into successive editions of the Principles. It would appear that Hollander has exaggerated the general nature of these changes. Most, including Sraffa, would agree that a substantial change in Ricardo's thinking did take place between the publication of the Essay on Profits and the first edition of the Principles. There is little evidence, however, that would suggest that major changes occurred from that point forward. Even the change from corn to labour, between the Essay and the Principles, involves a change of thinking that is more apparent than real. As George Stigler points out, Ricardo is fairly consistent from the outset in setting forth what amounts to Adam Smith's theory modified by the exclusion of rents:

I can find no basis for the belief that Ricardo had an analytical theory of value, for quantities of labor are not the only determinants of relative values. Such a theory would have to reduce all obstacles to production to expenditures of labor or assert the irrelevance or non-existence of non-labor obstacles, and Ricardo does not embrace either view. On the other hand, there is no doubt that he held what may be called an empirical labor theory of value, that is, a theory that the relative quantities of labor
required in production are the dominant determinants of relative values. . . .52

That Ricardo adhered consistently to a labour theory of value and that this theory was, in essence, an "empirical" theory will become evident in the following pages.

Capital Accumulation and Labour Costs:

The Evolution of Ricardo's Theory of Value

As Ricardo notes in the "Introduction" to his Essay on Profits, the work represents an effort to understand "the subject of the profits of capital."53 It represents more than that, however. Like his other theoretical works, the Essay on Profits—its origin, content, and raison d'etre—is bound up with a current question of national policy. Whereas his previous overriding concern was with the bullion question, his attention had now largely shifted to the subject of the corn laws. The work is as much devoted to a refutation of Malthus' opinion on the question of the free importation of corn as it is concerned with the development of a general theory of profits.

... Viewing, as ... [Malthus] does, the danger as formidable of depending on foreign supply for a large portion of our food, he considers it wise, on the whole, to restrict importation. Not participating with him, in those fears, and perhaps estimating the advantages of a cheap price of corn at a higher value, I have come to a different conclusion.54

Thus begins yet another attempt to establish the validity of the principles of free trade by Ricardo.

To understand the principles governing the profits of capital, according to Ricardo, "it is necessary to consider the principles
which regulate the rise and fall of rent." And the principles which regulate rent Ricardo takes to be, in essence, those articulated by Malthus in *An Inquiry into the Nature and Progress of Rent . . .*, published in 1815. The theory of profits developed by Ricardo in his Essay becomes, fundamentally, the reciprocal of the principles governing rent developed by Malthus in the aforementioned work. It is in the relationships of the general theory of rent and profits that Ricardo will find the justification for free trade.

The most general proposition of a theoretical nature to emerge from the Essay is that the general rate of profit for any trade bears a fixed proportional relationship to the rate of profit on land employed in agricultural pursuits. Ricardo states it quite succinctly:

> It is not meant, that strictly the rate of profits on agriculture and manufactures will be the same, but that they will bear some proportion to each other. Adam Smith has explained why profits are somewhat less on some employments of capital than on others, according to their security, cleanliness, and respectability, &c. &c.

> What the proportion may be is of no importance to my argument, as I am only desirous of proving that the profits on agricultural capital cannot materially vary, without occasioning a similar variation in the profits of capital, employed on manufactures and commerce.

> More specifically, the above proposition might be formulated as follows: the general rate of profit for any trade—commercial, manufacturing or agriculture—depends upon the rate of profit for the least well situated and/or least fertile agricultural land. To understand this proposition it will first be necessary to sketch Ricardo's definitions of rent, profit, and wages. As noted previously, Ricardo's understanding of the concept of rent is borrowed in toto from
Malthus. For Ricardo, as for Malthus, rent equals the residual of gross receipts after deducting the costs of production ("outgoings") and the profits of capital. Profits are understood to be equal to gross receipts minus the fixed and circulating capital. Wages were thought of as the sole component of circulating capital. The proposition advanced by Ricardo thus appears in the following form: Gross receipts - costs of production (fixed and circulating capital) = Profits; Gross receipts - costs of production - Profits = Rent. For Ricardo, therefore, rent becomes the last source of income to be derived from the employment of land in agricultural pursuits:

Whenever, then, the usual and ordinary rate of the profits of agricultural stock, and all the outgoings belonging to the cultivation of land, are together equal to the value of the whole produce, there can be no rent.

And when the whole produce is only equal in value to the outgoings necessary to cultivation, there can be neither rent nor profit.57

At this point all we know about rent is that it is the residual of gross receipts after deducting the costs of production and profits. We do not yet have enough information to enable us to know when rent will exist as a source of income and, when it does exist, how large its relative magnitude will be. By introducing the concept of scarcity we are able to explain the phenomenon of rent more fully:

In the first settling of a country rich in fertile land, and which may be had by anyone who chooses to take it, the whole produce, after deducting the outgoings belonging to cultivation, will be the profits of capital, and will belong to the owner of such capital, without any deduction whatever for rent.58

Under such circumstances, according to Ricardo, profits might either increase or decrease depending on (1) the ratio of population growth
to new capital formation and (2) on the state of technology (i.e., on "the system of agriculture" or "the implements of husbandry"). But irrespective of the absolute amount of profits or the profit margin, rent will not exist as a payment, nor landlords as a class, as long as there exists an abundance of fertile land. It is only with the gradual depletion of the available fertile land that rent as a source of income comes into being.

... By bringing successively land of a worse quality, or less favourably situated into cultivation, rent would rise on the land previously cultivated, and precisely in the same degree would profits fall. ...

What Ricardo has thus elucidated, as he himself notes, is Malthus' theory of rent.

In all that I have said concerning the origin and progress of rent, I have briefly repeated, and endeavored to elucidate the principles which Mr. Malthus has so ably laid down, on the same subject in his "Inquiry into the Nature and Progress of Rent." Briefly stated, Malthus' position is that as land of inferior quality is introduced into production, costs of production increase and profits decrease. Referring back to the original formula (Gross receipts - costs of production = profits) it is clear that profits could only be seen to diminish as a result of an increase in the costs of production resulting from the use of lands of increasingly inferior quality. This is the genesis of rent. Rent is paid to the owners of superior land—again, defining superiority either in terms of fertility or proximity to markets—in amounts equaling the differential which exists between the costs of production incurred on inferior land versus the costs incurred on superior land. Thus rent is paid to the owners
of the superior land for the higher average returns on that land. This, of course, is meant to be understood as a tendency as opposed to a universal statement of condition. The equilibrium point is the vortex of the forces at work, but the variables need not be stable at a single equilibrium point.

For Ricardo as well as for Malthus, therefore, rent is understood to be a natural concomitant of the progress in the accumulation of wealth:

... In a progressive country, rent is not only absolutely increasing, but ... it is also increasing in its ratio to the capital employed on the land ... . The landlord not only obtains a greater produce, but a larger share. Rent then is in all cases a portion of the profits previously obtained on the land. It is never a new creation of revenue, but always a part of a revenue already created.

Profits of stock fall only, because land equally well adapted to produce food cannot be procured; and the degree of the fall of profits, and the rise of rents, depends wholly on the increased expense of production.

If, therefore, in the progress of countries in wealth and population, new portions of fertile land could be added to such countries, with every increase of capital, profits would never fall, nor rents rise.61

What has been articulated by Ricardo in this discussion of rent is thus a theory of diminishing returns on the employment of agricultural capital. As noted previously, Ricardo's theory of profits is merely the reciprocal of his—that is to say Malthus'—theory of rent. Rent, for Ricardo, becomes an index of diminishing returns. The higher the payment for rent as a percentage of the total returns on agricultural capital means, ipso facto, that lands of increasingly inferior quality are being employed in the production of foodstuffs. This being the case, rental payments as a percentage of the total return on agricultural
capital also provide an index of the general state of profits. This is so, according to Ricardo, because the value of foodstuffs represents a significant cost of producing a marketable commodity. The wages of the workingman must reflect the value of foodstuffs if he is to maintain himself and his family. An increase in the value of foodstuffs therefore necessitates an increase in the wages of labour which constitutes an increase in the cost of production.

The general conclusion to which Ricardo is led by this process of reasoning is simplicity itself:

The sole effect then of the progress of wealth on prices, independently of all improvements, either in agriculture or manufactures, appears to be to raise the price of raw produce and of labour, leaving all other commodities at their original prices, and to lower general profits in consequence of the general rise of wages.62

Ricardo's isolation of the price of raw produce and thus of labour as the key variable leads him to concentrate his attention on a free trade in corn as the only policy which, in the long run, will serve to increase the rate of agricultural profits and, therefore, the general rate of profits as well. According to Ricardo,

Our commodities would not sell abroad for more or for less in consequence of a free trade, and a cheap price of corn, but the cost of production to our manufacturers would be very different if the price of corn was eighty, or was sixty shillings per quarter; and consequently profits would be augmented by all the cost saved in the production of the exported commodities.63

This being the case, Ricardo notes,

We should undoubtedly be a regularly importing country. We should be so in consequence of the superiority of our wealth and population, compared to the fertility of our soil over our neighbours.64

It would be profitable to import corn because England could buy foreign
corn more cheaply than it could produce it herself. The relatively inexpensive foreign corn would, in turn, contribute to a decrease in the costs of production for manufactured items in the form of lower wage rates. The general profit margins enjoyed by British manufacturers could thus be increased by the importation of corn.

* * *

In this advocacy of a free trade in corn, Ricardo was opposed by Malthus. Despite the fact that they shared a common understanding of the causes of rent, they could not agree on a general theory of profits. This is not as paradoxical as it might at first appear. Ricardo's theory of profits, as Sraffa has pointed out, was in no way dependent on Malthus' theory of rent, it being fully developed before Malthus' opinions on rent were known to him. Ricardo adopted the theory of rent advanced by Malthus chiefly because it aided his explanation of profits. At any rate, Malthus disagreed with Ricardo's position on the free importation of corn; and his disagreement was based on several grounds. First, according to Malthus, there were dangers inherent in becoming dependent on a foreign source of corn—dangers which Ricardo failed to perceive. Secondly, Malthus viewed with disdain the willful neglect of the interests of the agricultural classes. In terms of productivity, according to Malthus, it was agriculture not manufacturing, that ought to be advanced. Third, Malthus argued that the free importation of corn exacerbated the cleavage between the classes by rewarding the interests of the wealthy at the direct expense of the poor. Fourth, he argued that a fall in the price of corn would
produce a depressed state of commerce. And, *fifth*, and most fundamen-
tally, he argued that agricultural profits do not determine the general
rate of profits any more than the profits of commerce or manufacturing
determine the rate of agricultural profits.

With Malthus' first two objections Ricardo has little trouble.

*On the dangers of becoming dependent on a foreign supply of corn,*
Ricardo points out, first, that an exporting country could not merely
withdraw its supply from the market in order to gain a political
advantage without suffering economic reverses of a fundamental nature.

The immense capital which would be employed on the land, could
not be withdrawn suddenly, and under such circumstances, without
immense loss; besides which, the glut of corn in their markets,
which would affect their whole supply, and lower its value beyond
calculation; the failure of those returns, which are essential in
all commercial ventures, would occasion a scene of wide spreading
ruin, which if a country would patiently endure, would render it
unfit to wage war with any prospect of success. 67

Secondly, according to Ricardo, the effects of bad seasons on
the supply of corn available to importing nations would not be irremedial
adversity. Initially, if the vacillations in English legislation on the
question of import duties could be resolved in favour of a free trade
in corn, exporting countries would grow a greater amount in anticipation
of increased foreign sales. On this score alone, bad seasons would be
less likely to occur and, if they did occur, would be less severe in
nature. But, in addition, bad seasons would not mean a shortage in the
supply of corn to the importing country, only a higher price.

Under the circumstances then of bad seasons the exporting country
would content itself with the smallest possible quantity necessary
for their own consumption, and would take advantage of the high
price in England, to sell all they could spare, as not only would
corn be high, as compared with money, but as compared with all other things. . . .

Thus, although admitting of some potential inconveniences stemming from the importation of corn, Ricardo does not view the problems as sufficient to outweigh the advantages stemming from importation.

In Malthus' *Grounds of an Opinion* he makes the argument that, in addition to the uncertainties of dependence on a foreign supply of corn, the losses to agricultural capital attendant to such an importation would be unacceptable. To this general proposition, Ricardo vigorously dissents. He maintains that Malthus' proposition would yield a policy of stagnation.

... [Malthus] laments the loss of that which by the course of events has become of no use to us, and by the employment of which we actually lose. We might just as fairly have been told, when the steam-engine, or Mr. Arkwright's cotton-machine, was brought to perfection, that it would be wrong to adopt the use of them, because the value of the old clumsy machinery would be lost to us. 69

It is true, notes Ricardo, that not all would gain equally from free importation just as all did not gain equally from the introduction of improved machinery. The individuals who stand most to lose should be afforded a measure of protection from excessive losses, but should not be allowed to stand in the way of progress. 70

Other arguments propounded by Malthus in opposition to the free importation of corn cause Ricardo greater pause. To Malthus' third general proposition that the benefits of such a foreign trade will redound to the benefit of those commercial classes directly involved in that trade at the expense of the commercial classes not so involved, Ricardo replies that
if the view which has been taken of rent be correct,—if it rise as general profits fall, and falls as general profits rise,—and if the effect of importing corn is to lower rent, which has been admitted, and ably exemplified by Mr. Malthus himself,—all who are concerned in trade,—all capitalists whatever, whether they be farmers, manufacturers, or merchants, will have a great augmentation of profits. 71

But to the concurrent proposition that the benefits of such a trade will have a negative impact on the lower classes, Ricardo is hard put for an answer, believing that "some of his observations on this subject are certainly of great weight . . . ." 72 His reply is, by now, his characteristic one. By increasing the national capital, more people will be profitably engaged than heretofore. The argument amounts to what has come to be referred to as the "trickle-down" theory.

. . . [Malthus] does not sufficiently allow for the effects of a better distribution of the national capital on the situation of the lower classes. It would be beneficial to them, because the same capital would employ more hands; besides, that the greater profits would lead to further accumulation; and thus would a stimulus be given to population by really high wages, which could not fail for a long time to ameliorate the conditions of the labouring classes. 73

The fourth argument advanced by Malthus exposes a further weakness in Ricardo's general theory of profits. Malthus argues that a fall in the price of corn will yield a general commercial distress by decreasing expendible income. It was generally accepted by Ricardo and his advocates—and, for that matter, by most economists up until the publication of Keynes' General Theory—that supply creates its own demand. This is what is commonly referred to as Say's Law. Malthus argues, in general, that a fall in the price of corn, and thus of wages, could conceivably produce a glut. To this Ricardo can only repeat his
general dictum. "I must again observe, that a rise in the value of money lowers all things; whereas a fall in the price of corn, only lowers the wages of labour, and therefore raises profits." 

Finally, and most tellingly, Malthus argues against Ricardo's central proposition that the profits of the farmer determine the profits of all other trades, with the argument that the profits of the farmer no more determine the profits of all other trades than the profits of the commercial classes determine the profits of the farmer. Malthus had already adopted this position in his letters to Ricardo prior to the latter's publication of his Essay. In a letter of 6 July 1814, Malthus outlines his position:

... The effects of a great difficulty in procuring corn would in my opinion be, a diminution of capital, a diminution of produce, and a diminution in the real wages of labour, or their price in corn; but not a diminution of profits; although unquestionably low profits might accompany a great difficulty in producing corn, if at the same time that this difficulty existed there was a great abundance of capital. In short all will in my opinion depend upon the state of capital compared with the demand for it. This will be the prime mover, and it is this which will determine the profits which a capital employed in agriculture shall yield, whether the land be naturally rich or naturally poor, much worked or little worked.

Only five weeks later, in a further letter to Ricardo, Malthus reaffirms his position.

The more I reflect on the subject, the more firmly I feel convinced, that it is the state of capital, or the general profits of stock and interest of money, which determines the particular profit upon the land; and that it is not the particular profits or rate of produce upon the land which determines the general profits of stock and the interest of money.

The opinions expressed by Malthus in his letters to Ricardo were in rebuttal to Ricardo's letters on the subject of profits--
which already contained the outline of the arguments that he later developed in his *Essay on Profits*. This is perhaps most evident in Ricardo's letter to Hutches Trower of 8 March 1814:

... I will endeavor to state the question itself. When Capital increases in a country, and the means of employing Capital already exists, or increases, in the same proportion, the rate of interest and of profits will not fall.

Interest rises only when the means of employment for Capital bears a greater proportion than before to the Capital itself, and falls when the Capital bears a greater proportion to the arena, as Mr. Malthus has called it, for its employment. On these points I believe that we are all agreed, but I contend that the arena for the employment of new Capital cannot increase in any country in the same or greater proportion than the Capital itself, unless Capital be withdrawn from the land[,] unless there be improvements in husbandry,—or new facilities be offered for the introduction of food from foreign countries;—that in short it is the profits of the farmer which regulate the profits of all other trades,—and as the profits of the farmer must necessarily decrease with every augmentation of Capital employed on the land, provided no improvements be at the same time made in husbandry, all other profits must diminish and therefore the rate of interest must fall.77

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The respective opinions of Malthus and Ricardo on the subject of a general rate of profits became solidified—as we have seen—in Malthus' *Grounds of an Opinion*, and Ricardo's *Essay on Profits*. Under the constant criticism of Malthus and his followers, and faced with the problem of developing a more general theory of value, Ricardo abandoned his theory of profits as he had developed it in the *Essay*.78

It was now labour, instead of corn, that appeared on both sides of the account—in modern terms, both as input and output: as a result, the rate of profits was no longer determined by the ratio of the corn produced to the corn used up on production, but, instead, by the ratio of the total labour of the country to the labour required to produce the necessaries for that labour.79

This is not so different from the theory of profits developed
in the Essay, the chief difference being that the theory of value developed in the Principles of Political Economy and Taxation is more applicable to a modern—that is to say diversified—economic system. The Essay on Profits was limited in that its empirical referent was an economic system overwhelmingly agricultural in orientation. The Principles, then, is an attempt to derive a theory of value that more adequately reflected the changing composition of the British economic system.

The basic nature of the changes, as well as the essential continuity between the Essay on Profits and the Principles of Political Economy, will become more evident after a brief discussion of Ricardo's treatment of rents, wages, and profits in the Principles. The discussion of rent in the Principles is already familiar to us following, as it does, the essential conception of it developed in the Essay. For purposes of amplification, as well as for purposes of comparison, a brief summary of Ricardo's conception of rent will be useful in understanding his theory of value. Even in the Principles, rent is the most logical starting point for understanding his general theory because the parameters of his model are more clear and his variables most clearly specifiable.

In the Essay, rent is presented as the residual of gross receipts after deducting costs of production and profits. 80 As a residual payment, it is understood that rent represents not an integral component of value but an artificial manifestation of value. 81 Rent is understood to be a function of scarcity, not of value added. To begin with an understanding of rent, then, will help answer the question of what constitutes value.
In the *Principles*, just as in the *Essay*, rent is described as the residual of gross receipts after deducting costs of production and profits:

Nothing is more common than to hear of the advantages which the land possesses over every other source of useful produce, on account of the surplus which it yields in the form of rent. Yet when land is most abundant, when most productive, and most fertile, it yields no rent; and it is only when its powers decay, and less is yielded in return for labour, that a share of the original produce of the more fertile portions is set apart for rent . . . .

That rent does not contribute to value is quite clear in Ricardo's own mind. In the *Principles*, rent is treated as a wholly artificial payment. The increase, or decrease, of the rent on land has no effect on the value of the products of the land:

The reason . . . why raw produce rises in comparative value, is because more labour is employed in the production of the last portion obtained, and not because a rent is paid to the landlord. . . . Corn is not high because a rent is paid, but a rent is paid because corn is high; and it has been justly observed, that no reduction would take place in the price of corn, although landlords should forego the whole of their rent.

Rent, then, is a function of scarcity:

If all land had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation. It is only, then, because land is not unlimited in quantity and uniform in quality, and because in the progress of population, land of an inferior quality, or less advantageously situated is called into cultivation, that rent is ever paid for the use of it.

Implicit in the above passage is the relational nature of Ricardo's concept of scarcity. And it is in the relationships developed by Ricardo to explain scarcity, and thus rent, that a model of society begins to emerge. As suggested above, the fertility of the land and
its situation (i.e., its accessibility to markets is related to the level of population. As population increases land (at a given level of fertility and accessibility) becomes increasingly scarce. The result, then, of an increase in population is an ever increasing reliance on lands of poorer quality and/or accessibility. As more labour is required to obtain and market produce of the inferior lands, it is only natural that a premium should arise on the lands of superior quality; and the premium (or rent) is in direct proportion to the difference between the quantity of labour necessary to obtain and market the produce on the lands of differing qualities. The greater the quantity of labour necessary on the inferior lands to equal the marketable produce of the superior lands the greater the rent paid for the use of the superior land. Hence Ricardo's conclusion (above) that "... raw produce rises in comparative value ... because more labour is employed in the production of the last portion obtained, and not because a rent is paid to the landlord." 86

One other factor has yet to be mentioned in this preliminary analysis of Ricardo's theory of value—the effect of capital improvements on the scarcity of land and thus on rent. Because capital—for Ricardo—is accumulated labour, the rules that govern the relationship between the labour expended on a product and its value apply equally to a discussion of the effects of capital improvements on value:

... It follows from the same principles, that any circumstances in the society which should make it unnecessary to employ the same amount of capital on the land, and which should therefore make the portion last employed more productive, would lower rent. 87
The "circumstances" to which Ricardo refers appear to be basically of two sorts: "... those which increase the productive powers of the land, and those which enable us, by improving our machinery, to obtain its produce with less labour." In either case, according to Ricardo, the efficiency of the land is improved yielding a reduction in the price of raw produce and thus rent. But there is an essential difference between what Ricardo refers to as an "increase in the productive powers of the land" and an improvement in machinery which enables us "to obtain its produce with less labour." In the former case, such as with the more skillful rotation of crops, it is obvious that less land will be necessary to yield the same amount of produce. In this case the first land to be retired from production will be the land of the poorest quality or, what is the same thing, the land which requires the most labour to yield a product equal to that obtainable on the lands of the best quality. From our previous analysis, the effect of this will be to both reduce the value of the product and to lower rent. But in the latter case, such as with the introduction of new machinery, the total value of the product and thus rent need not change. The difference, for Ricardo, hinges on what must be considered a questionable distinction at best. In the case of the introduction of new machinery it is not the land which becomes more productive, but labour. "Less capital, which is the same thing as less labour, will be employed on the land; but to obtain the same produce, less land cannot be cultivated." It is only if all of the improvements are caused to take place on the lands of inferior quality that a reduction in the value of the total
product and thus rent will take place. One fails to see why the same logic could not be applied to the skillful rotation of crops. But, in any case, the principle remains the same; i.e., "whatever diminishes the inequality in the produce obtained from successive portions of capital employed on the same or new land, tends to lower rent; and that whatever increases that inequality, necessarily produces an opposite effect, and tends to raise it."\textsuperscript{90}

Given this background of Ricardo's discussion of rent in the \textit{Principles}, it will now be possible to conceptualize his theories of wages and profits. The most fundamental point to be understood in this discussion is that the value of wages and profits are dependent basically on the value of the agricultural product; that whatever causes the value of the products of agriculture to vary causes a predictable variation in wages and profits. Here the essential continuity and the essential difference between the \textit{Essay on Profits} and the \textit{Principles of Political Economy} is most evident. In the \textit{Essay} it was the profits of the farmer that governed the profits of all other trades. In the \textit{Principles} it becomes the value of the agricultural product that governs the profits of all other trades; that is to say, the quantity of labour employed in the production of the agricultural product. As previously stated, this is, in effect, the same principle.\textsuperscript{91} In the \textit{Essay} the profits of the farmer were conceptualized in the following manner: Gross receipts - costs of production (fixed and circulating capital) = profits. As the wages of labour were the sole component of circulating capital any increase in wages decreased the profits of the farmer. This is the same
thing as saying that the total value of the agricultural product increased.

This increase in the total value of the agricultural product was seen to decrease the profits of the farmer and, in like proportion, the profits of all other trades. Ricardo, as we have just seen, arrives at the same formula in the Principles. The difference consists in the fact that the labour theory of value is explicit in the Principles whereas it was only implicit in the Essay. As a more general standard of value, it enabled Ricardo (as will be seen below) to account more fully for the value of all products, as opposed to those of agriculture only.92

To return to Ricardo's discussion of wages and profits in the Principles, it is Ricardo's contention that both are dependent on the total value of the agricultural product. Ricardo's conceptualization of wages is simplicity itself:

The power of the labourer to support himself, and the family which may be necessary to keep up the number of labourers, does not depend on the quantity of money which he may receive for wages, but on the quantity of food, necessaries, and conveniences required for the support of the labourer and his family. With a rise in the price of food and necessaries, the natural price of labour will rise; with the fall in their price, the natural price of labour will fall.93

Ricardo's understanding of the relationship between the total value of the agricultural product and profits is no less clear:

We have seen that the price of corn is regulated by the quantity of labour necessary to produce it, with that portion of capital which pays no rent. We have seen, too, that all manufactured commodities rise and fall in price, in proportion as more or less labour becomes necessary to their production. Neither the farmer who cultivates that quantity of land, which regulates price, nor the manufacturer, who manufactures goods, sacrifice any portion of the produce for rent. The whole value of their commodities is divided into two portions only; one constitutes the profits of stock, the other the wages of labour.
Supposing corn and manufactured goods always to sell at the same price, profits would be high or low in proportion as wages were low or high. But suppose corn to rise in price because more labour is necessary to produce it; that cause will not raise the price of manufactured goods in the production of which no additional quantity of labour is required. If, then, wages continued the same, the profits of manufacturers would remain the same; but if, as is absolutely certain, wages should rise with the rise of corn, then their profits would necessarily fall.94

*     *     *

With this conception of rent, profits, and wages as a background we may now turn to Ricardo's most explicit formulation of the concept of value--his chapter "On Value" in the Principles. It is in this chapter that his views on the subject receive their most complete development. Building upon his earlier analyses of the problem--first in his writings on the bullion question and later in the Essay on Profits and the Principles of Political Economy--the chapter "On Value" represents the capstone of his theory. As his most complete formulation of the constitutive elements of value, it will also enable us to more adequately interpret his earlier discussions of rent, profits, and wages from a sociological perspective and thus to complete our understanding of Ricardo's theory of society.

The fundamental axiom of Ricardo's theory of value and, as we shall see in the next chapter, of his social theory as well, is that objects acquire value in proportion to the quantity of labour invested in their production. He states it in the following manner:

In speaking ... of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.
In the early stages of society, the exchangeable value of these commodities, or the rule which determines how much of one shall be given in exchange for another, depends almost exclusively on the comparative quantity of labour expended on each.

That this is really the foundation of the exchangeable value of all things, excepting those which cannot be increased by human industry, is a doctrine of the utmost importance in political economy; for from no source do so many errors, and so much difference of opinion in that science proceed, as from the vague ideas which are attached to the word value.

If the quantity of labour realized in commodities, regulate their exchangeable value, every increase of the quantity of labour must augment the value of that commodity on which it is exercised, as every diminution must lower it.95

Two things are immediately apparent in this definition. First, implicitly, Ricardo assumes that objects must possess a use-value (utility) in order to be of value-in-exchange. But, although utility is a prerequisite of value-in-exchange, it does not constitute an index of exchange value. "Water and air are abundantly useful; they are indeed indispensable to existence, yet, under ordinary circumstances, nothing can be obtained in exchange for them."96 Thus Ricardo is interested in relative value, not absolute value. A second aspect of the above definition of value is also apparent. Ricardo expressly rejects scarcity ("those [things] which cannot be increased [in value] by human industry") as a factor in exchange-value. This is not to say that Ricardo ignores scarcity as a factor in the value of some commodities. "There are some commodities, the value of which is determined by their scarcity alone."97 But it is to say that Ricardo considers these commodities rare and not subject to the general rule that the value of an object varies in proportion to the quantity of labour invested in it. "Their value is wholly independent of the quantity of labour originally necessary to produce
them, and varies with the varying wealth and inclinations of those who are desirous to possess them." The value of such products, then, would have to be the subject of a separate inquiry. Ricardo is interested in the subject of what determines the relative value of commodities that acquire value "by the exertion of human industry." 

Thus, assuming value-in-use, the value of commodities is determined, one to another, "almost exclusively on the comparative quantity of labour expended on each." It remains for us to indicate, then, the nature of the modifications of this general principle suggested by Ricardo. Two potential modifications of the general rule are discussed. The first involves the effects of the quality (that is the skill and intensity) of workmanship on the relative value of commodities. From Ricardo's perspective the quality of labour invested in the production of a commodity, as well as the quantity of labour, affects its ultimate value. "... I must not be supposed to be inattentive to the different qualities of labour, and the difficulty of comparing an hour's or a day's labour, in one employment, with the same duration of labour in another." But although these differences exist, according to Ricardo, they are almost always fixed in time and place and therefore do not, to any great degree, enter into calculations of relative value:

As the inquiry to which I wish to draw the reader's attention, refers to the effect of the variations in the relative value of commodities, and not their absolute value, it will be of little importance to examine into the comparative degree of estimation in which the different kinds of human labour are held. We may fairly conclude, that whatever inequality there might originally have been in them, whatever the ingenuity, skill, or time necessary for the acquirement of one species of manual dexterity more than another, it constitutes nearly the same from one generation to
another; or at least, that the variation is very inconsiderable from year to year, and therefore, can have little effect, for short periods, on the relative value of commodities.\textsuperscript{102}

Because of the potential for confusion concerning this statement, we must be explicit about its precise meaning. Ricardo is not asserting that differences in the quality of labour are unimportant in determining the relative value of commodities. What he is asserting is that these differences are basically fixed; that is, the differences in the quality of labour incorporated in the production of different commodities is an integral component of the scale of relative values. Because he assumes the qualitative relationships to be fixed, however, changes in the value of commodities appear as a result of changes in the quantity of labour invested in its production. Changes in the quality of labour either over time or between geographical locations, are too insignificant to warrant his consideration. Thus, in interpreting his statements concerning the effect of the quality of labour on relative value, we must distinguish between the factors that contribute to the value of commodities (quantity + quality of labour invested) and the factors which contribute to changes in relative value at a fixed point in time (quantity of labour invested). To account for his first modification of the general rule that the relative value of commodities depends "almost exclusively on the comparative quantity of labour expended on each," then, we may restate the proposition in the following form: Assuming utility, the relative value of commodities is dependent on the quantity and quality of labour invested in their production. But the quality of labour is assumed to change only marginally and, therefore,
is unimportant to the general rule that the value of a commodity depends on the quantity of labour invested in its production.

The second potential modification of the theory of value involves the effects of the application of capital on the relative value of commodities. Here, as other commentators have noted, there is substantial confusion concerning the precise meaning of Ricardo's statements. The confusion stems from the fact that "Ricardo's formulation of his theory of value was much influenced by his desire to correct what he believed to be the major errors of Adam Smith's theory." This, in brief, amounted to a refutation of Smith's position that the long-run value of a commodity was dependent on "the sum of the necessary payments for labour, capital, and land. A rise in the price of one of these factors, and in particular a rise in wages, would lead to a rise in the prices of commodities in which the factor entered." Ricardo, in addition to removing rent as a source of value altogether, insisted that wages and profits were important only in the short run. In the long run, it was only the quantity of labour that was important and therefore, to Ricardo, Smith's position that changes in wage and profit rates produced changes in value was erroneous.

The importance of this for our discussion of the effects of the application of capital on value is that his discussion of capital is tied to his intent to disprove Smith's thesis. Thus Ricardo's discussion of the effects of the ratio of "fixed" to "circulating" capital, the "durability" of "fixed" capital, and the rate of turnover of "circulating" capital on value must be deduced from his propositions concerning
the effect of a change in wage or profit rates on each of the above
categories of capital as they affect the ultimate value of commodities.

It will be contended here that although Ricardo admits of some
variation in value as a result of changing wage and profit rates these
are for the most part not important.\textsuperscript{106} "... Although it would be
'wrong wholly to omit the consideration of the effect produced by a rise
or fall of labour [wages], it would be equally incorrect to attach much
importance to it."\textsuperscript{107} Thus Ricardo's basic proposition with respect
to the effects of the application of capital to the value of commodities
may be stated succinctly: "Not only the labour applied immediately to
commodities affect their value [circulating capital], but the labour
also which is bestowed on the implements, tools, and buildings, with
which such labour is assisted [fixed capital]."\textsuperscript{108} This principle
applies as well to the durability of fixed capital and to the rate of
turnover of circulating capital. The more durable the fixed capital,
\textit{ipso facto}, the less value it imparts to the commodity in question.\textsuperscript{109}
Similarly, the slower the turnover of circulating capital, according
to Ricardo, the greater the value of the product.\textsuperscript{110} Thus we may
conclude with Ricardo that the nature of the capital employed on the
production of commodities (whether fixed or circulating, durable or
perishable, and whether rapid or slow in turnover) affects the ultimate
value of commodities in different proportions. But in all cases, the
effect of the application of machinery to the production of commodities
yields a value less than the labour displaced by the introduction of
such capital. "Thus then is the public benefited by machinery: these
mute agents are always the produce of much less labour than that which they displace, even when they are of the same money value." 111

Before turning once again to the relationship between Ricardo's theory of value and his policy orientation of free trade on the corn law question it would be useful to briefly summarize his views. Rents, Wages and Profits are treated, both in the Essay and in the Principles, as payments to the respective "classes"—landlord, labourer, capitalist—in return for the use of the land, labour and capital invested in the production of commodities. Wages and Profits constitute the monetary equivalent of (1) the labour invested directly in the production of commodities (wages) and (2) the labour indirectly invested in their production (capital); rents are excluded. Rents are always considered by Ricardo to be a portion of profits on land. However, simply because wages and profits constitute the monetary payments for the labour applied to the production of commodities does not mean, as we have just seen, that changes in wage and profit rates change the value of commodities. Changes in wage and profit rates have, at best, a marginal effect on value. This, then, is the essence of the labour theory of value. As the value of a commodity in the long-run (its long-term price on the market) depends, essentially, on the quantity of labour invested in its production, it is imperative that the cost of that given quantity of labour be maintained at a minimum. It is not possible to understand the raison d'être of Ricardo's theory of value without understanding the relationship of the doctrines to his discussion of rents, wages, and profits.
The Labour Theory of Value and the Corn Law Controversy

It was Ricardo's contention, in brief, that the corn laws, by maintaining an artificially high price of corn, decreased the profits of all trades, manufacturing as well as agricultural. These laws which imposed a levy on the importation of foreign grains were thus seen as inimical to the accumulation of capital, such accumulation being the sole result of the rate of profits. As the application of capital to the production of commodities is the only method by which these commodities can be reduced in value, Ricardo reasons that anything which reduces the rate of accumulation increases the relative costs of British manufacturers vis-à-vis foreign competition. The Corn laws, in short, were not in the national interest as they increased the costs of British manufacturers by protecting domestic agricultural interests, it being assumed that Britain was not competitive in agricultural pursuits.

As we have seen, this orientation to the general problem of falling profits was first formulated in the Essay on Profits. Here it was contended that it is the profits of the farmer that determine the profits of all other trades. This was the case, according to Ricardo, because it is the costs of production on agricultural land that determine the wages of labour, whether that labour be applied to agricultural or non-agricultural pursuits. The higher the costs of production on agricultural produce, therefore, the higher the cost to the labourer to
maintain himself and his family at a subsistence level and, consequently, the higher the cost to the entrepreneur who employs him. Ricardo's general conclusion from his analysis in the Essay on Profits—we may recall—took the following form:

The sale effect then of the progress of wealth on prices, independent of all improvements, either in agriculture or manufacturers, appears to be to raise the price of raw produce and labour, leaving all other commodities at their original prices, and to lower general profits in consequence of the general rise of wages.112

This line of reasoning is repeated in the Principles of Political Economy despite the substitution of the labour theory of value for the cost of production theory of the Essay. We have seen elsewhere that the labour theory of value was, in essence, an "empirical" theory and that Ricardo's analysis in the Principles did not differ materially from his analysis in the Essay.113 Once again, in the Principles, it is Ricardo's contention that as wages increase, in either agricultural or manufacturing pursuits, profits decrease. This is so because the value of a product is understood to vary primarily with the quantity of labour bestowed on its production. The starting point in Ricardo's analysis is again the value of agricultural produce. As lands of inferior quality are brought into production, the produce of such lands will increase in value because a greater quantity of labour is required on the inferior land to yield an amount of food equal to that obtainable on the superior land. Thus the cultivation of inferior lands, in terms of the labour theory of value, amounts to this: the greater quantity of labour necessary to market the produce of inferior lands means that, to acquire such produce, a greater quantity of labour will be necessary to exchange...
for it; and the greater the quantity of labour necessary in exchange for the agricultural produce the higher the wages of labour. Because he continues to assume that as wages increase profits decrease, his conclusion in the *Principles* does not differ from that of the *Essay*; that is, the general rate of profits for all trades in dependent on the value of agricultural produce. 114

Ricardo's analysis that profits fall as wages increase is dependent, in both the *Essay* and the *Principles*, on the assumption that it is the value of the produce obtained on the worst land that governs the value of all agricultural produce. It is not the average quantity of labour necessary to market the produce of all land that determines the value of agricultural produce, according to Ricardo, due to the fact that rents are paid to the owners of the superior land in return for the lower value of the produce obtainable from these more fertile and/or more well-situated lands. Both in the *Essay* and in the *Principles*, rents are treated as a portion of profits previously attained on lands of superior quality. This has a dual significance for Ricardo's model of economic relationships.

First, it is from this perspective that Ricardo argues against the corn laws. These laws were seen, by analogy, to have the same effect on profits as the introduction of poorer lands in agricultural production. Because the corn laws, which imposed levies of varying magnitudes on the importation of small grains, maintained an artificially high price of foodstuffs, wages were likewise maintained at an artificially high price and profits reduced. Thus he argues against Malthus in the *Essay on*
Profits that a free trade in corn is the only appropriate policy to offset a decrease in the profit rate. We have had occasion to note already that, of the major objections raised by Malthus against Ricardo's advocacy of free trade, Ricardo modified only one aspect of his theory to meet those objections—that being his substitution of the labour theory of value found in the Principles for the cost of production theory found in the Essay. And it is now increasingly apparent that this was, for all practical purposes, a technical modification that in no way changed his general policy orientation. His advocacy of a free trade in corn in the Principles—on the grounds that it would reduce the cost of foodstuffs to the wage labourer and thus increase the general level of profits—is as unqualified as it was in the Essay:

It has been my endeavor to shew throughout this work, that the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of a fall of the necessaries on which wages are expended. If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessaries of the labourer can be brought to market at a reduced price, profits will rise.  

The second significant aspect of Ricardo's analysis, that rents are always a portion of profits on land, is implicit in the above quote. In the above quote Ricardo asserts that a permanent fall of wages and thus a permanent increase in profits is possible only by (1) an extension of foreign trade or (2) by improvements in machinery. We have just explored the rationale for an extension of foreign trade. The same general reasoning applies to the relationship between the rate of profits and improvements in machinery. As we have seen from our analysis of the Principles of Political Economy, the chief advantage of the labour
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theory of value vis a vis the earlier cost of production theory was that it afforded a more complete conceptualization of value; specifically, it allowed for the value added to commodities by "the implements, tools, and buildings with which . . . labour is assisted." Because such improvements in fixed capital can be financed only out of profits, anything which reduces the rate of profits reduces the potential for decreasing the costs of production through the introduction of improved machinery. Thus the existence of the factors which gave rise to rent give rise to low rates of profit or, alternatively, high costs.

* * *

Ricardo's labour theory of value, therefore, can be best understood as the logical outgrowth of his policy position on the corn laws—the theory of value serves as a conceptualization of the general problem of falling profit rates and provides the rationale for a free trade in corn as the most appropriate mechanism to check this general decline in the level of profits. As such, the theory of value can be perceived as a theory of the maximization of profits. Capital accumulation is the sine qua non of Ricardo's theory of value. High rates of profit, for Ricardo, are necessary if a country is to progress in wealth and population. And this is a position that he maintained throughout his life, both as a theoretician and as an M.P. In his pamphlet "Protection to Agriculture," prepared in 1822 for one of the major debates on the efficacy of the corn laws, his position remains the same as it was in the Essay on Profits and in the Principles of Political Economy; that is, anti-restrictionist. And his theory of value becomes the chief
source of justification for his position. Written during a period of agricultural distress, Ricardo no longer argues for the absence of all restrictions. He now argues for a moderate policy. Yet his reasoning remains the same:

. . . If we had not already pushed the endeavor of providing food for ourselves too far,—if we had not by our own acts made the expense of growing corn in this country greater than in others, such a law would be nugatory, because no difference of expense would exist. Is it not then in the highest degree absurd, first to pass a law under the operation of which the necessity is created of cultivating poor lands, and then so cultivating them at a great expense, make that additional expense ground for refusing ever to purchase corn from those who can afford to produce it at a cheaper price? 117

To Ricardo, the logic of his position was irrefutable. If the value of a commodity depends on the quantity of labour invested in its production, anything which raises the cost of this given quantity of labour will reduce the level of profits. And, as labour (a commodity like any other) is the chief cost of production in manufacturing as well as agricultural pursuits, anything which raises the cost of labour power will reduce the general level of profits. Because the labourer is always assumed to exist at a subsistence level, it therefore naturally follows that an increase in the cost of labour power can flow from only one source—an increase in the cost of those consumables on which the labourer subsists. And the corn laws had the effect of increasing the cost of the labourer's subsistence.

The underlying rationale of Ricardo's advocacy of a free trade in corn is, in essence, the same rationale that lies behind his objection to the poor laws and the Bank Restriction. Any public policy which mitigates the incentives of the propertied class to accumulate capital
reduces the ability of that class to forge the instruments of production—land, labour, and capital—into a productive configuration. The labourer, by definition, owns only his own labour-power. And the landlords, of necessity, were disinterested as a class in investing their profits in more efficient modes of production; their interests were better served through the escalation of rents, the by-product of inefficient modes of production and, consequently, the cultivation of inferior lands. It was only the owner of capital that possessed sufficient inducement to invest his returns in an expanded production. To interfere with the incentives of this class to accumulate wealth, therefore, was a threat to the very structure of civil society.

Because of the highly interdependent nature of productive relationships in a developed industrialized economy, nothing must interfere with the motive force, the integrating element, of the system—the incentive to accumulate. And Ricardo's fears were that restrictions on free exchange, of whatever kind, were just that source of interference. The future of mankind, in Ricardo's mind, was tied directly to the future of that class of individuals who possessed the power to mold the elements of nature into a productive relationship.
FOOTNOTES


2"... Thus, in 1463, Edward IV. prohibited the importation of wrought goods in the interests of English artificers; this act was renewed under Richard III., and, as late as the eighteenth century, was commended as a most beneficent piece of legislation.

Later still, under the Tudors, duties on imports were increased, and exports were prohibited under penalties . . .

Import duties were originally levied on the declared value of the merchandise, but in 1558 a 'Book of Rates' was drawn up, enumerating the articles and specifying how each should be valued for customs purposes. This book, an anticipation of a tariff, was revised on several occasions with a view to increasing the revenue. In 1662 the Rate Book enumerated 1,139 articles of import and 212 of export." Ibid., pp. 14-15.

3Ibid., p. 55.


7Ibid.


12 Piero Sraffa, "Note on 'Essay on Profits,'" Works and Correspondence, IX, 5.

13 The evidence suggests that Ricardo arrived at his point of view independently of West. Ibid.


15 Ibid., p. 156.

16 Hereafter referred to as the Essay on Profits.

17 Letter to J. B. Say, 18 Aug. 1815, Piero Sraffa, Works and Correspondence, VI, p. 249.

18 Mill to Ricardo, 23 Aug. 1815, Ibid., p. 252.

19 Mill to Ricardo, 10 Oct. 1815, Ibid., p. 309.


21 Letter to J. B. Say, 18 Aug. 1815, Ibid., p. 252.

22 Mill to Ricardo, 9 Nov. 1815, Ibid., p. 321.

23 Letter to Malthus, 7 Feb. 1816, Ibid., VII, 19. Two months later he continues to complain to Malthus: "I may continue to amuse myself with my speculations, but I do not think I shall ever proceed further. Obstacles almost invincible oppose themselves to my progress, and I find the greatest difficulty to avoid confusion in the most simple of my statements." Ibid., p. 28. Nor does the publication of the Principles allay his fears on this subject. Writing to Mill in 1818, he complains: "Know me for what I am, and estimate me accordingly. I am disposed, as all men are, to judge of myself favourably, but I cannot be blind to my utter inability of putting my thoughts on paper, with any degree of order, clearness, or precision. I am astonished at my own deficiency, for it is a talent which every one about me possesses in a superior degree to myself. You give me hopes of acquiring it by practice, and I value it so highly, that I shall not fail to persevere whilst I have a shadow of hope that success will crown my efforts." Ibid., p. 327.

24 Letter to Malthus, 28 May 1816, Ibid., p. 36.


50 For a discussion of these changes between the first and the third editions of the Principles see Piero Sraffa's, "Introduction," Ibid., pp. xli-xlxi.

Ibid., p. lvi.


Ibid.

Ibid.

Ibid., p. 12 (footnote).

Ibid., p. 10.

Ibid.


Ibid., p. 15 (footnote).

Ibid., p. 16.

Ibid., p. 20.

Ibid., p. 36.

Ibid., p. 27.

Piero Sraffa, "Note on 'Essay on Profits'" Piero Sraffa (ed.) Works and Correspondence, IV, 7.


Ibid., p. 28.

Ibid., p. 30.
69 Ibid., p. 33.
70 Ibid.
71 Ibid., p. 35.
72 Ibid.
73 Ibid.
74 Ibid., p. 37.
75 Malthus to Ricardo, 6 July 1814, Piero Sraffa, Works and Correspondence, VI, iii.
76 Malthus to Ricardo, 5 Aug. 1814, Ibid., p. 117.
77 Letter to Trower, 8 March 1814, Ibid., p. 103. Cited by Sraffa.
78 Supra., p. 200.
79 Piero Sraffa, "Introduction," Works and Correspondence, I, xxxii.
80 Supra, p. 192.
81 Supra., p. 194.
82 Supra., p. 192.
83 David Ricardo, The Principles of Political Economy and Taxation, Piero Sraffa, Works and Correspondence, I, 75.
84 Ibid., p. 74.
85 Ibid., p. 70.
86 Supra., p. 203.
87 David Ricardo, The Principles of Political Economy and Taxation, Piero Sraffa, Works and Correspondence, I, 78.
88 Ibid., p. 80.
89 Ibid., p. 82.
90 Ibid., p. 83.
91 Supra., p. 201.
This further serves to explain why, of the arguments posed by Malthus against Ricardo above, the last is in reality the least important. Ricardo's abandonment of a theory of profits for the more universal theory of value does not represent a change in position. This can be seen by the fact that Ricardo's position vis-à-vis Malthus' other objections did not change. The change in the conceptualization of the problem was consistent with his overall position. See below, pp. 208-214.


Ibid., p. 110, (my emphasis).

Ibid., p. 12.

Ibid., p. 11.

Ibid., p. 12.

Ibid.

This is not to suggest that Ricardo ignores the question of price. Quite the contrary. It is only to assert that price, from Ricardo's perspective, is to be understood as a short-term fluctuation. Value, then, is the long-run variable, and it is in this that he is interested and upon which he builds his theory.


Ibid., p. 20.

Ibid., p. 21.


Ibid.

The reader, however, should remark, that this cause of the variation of commodities is comparatively slight in its effects. With such a rise of wages as should occasion a fall of one per cent in profits, goods produced under the circumstances I have supposed, vary in relative value only one per cent; they fall with so great a fall of
profits from 6, 050\$ to 5, 995\$. The greatest effects which could be produced on the relative prices of these goods from a rise of wages, could not exceed 6 or 7 per cent; for profits could not, probably, under any circumstances, admit of a greater general and permanent depression than to that amount.

Not so with the other great cause of the variation in the value of commodities, namely, the increase or diminution in the quantity of labour necessary to produce them. If to produce the corn, eighty, instead of one hundred men, should be required, the value of the corn would fall 20 per cent or from 5,500\$ to 4,400\$. ... An alteration in the permanent rate of profits, to any great amount, is the effect of causes which do not operate but in the course of years; whereas alterations in the quantity of labour necessary to produce commodities, are of daily occurrence. Every improvement in machinery, in tools, in buildings, in raising the raw material, saves labour, and enables us to produce the commodity to which the improvement is applied with more facility, and consequently its value alters. In estimating, then, the causes of the variations in the value of commodities, although it would be wrong wholly to omit the consideration of the effect produced by a rise or fall of labour, it would be equally incorrect to attach much importance to it; and consequently, in the subsequent part of this work, though I shall occasionally refer to this cause of variation, I shall consider all the great variations which take place in the relative value of commodities to be produced by the greater or less quantity of labour which may be required from time to time to produce them.” David Ricardo, The Principles of Political Economy and Taxation, Piero Sraffa, Works and Correspondence, I, 36.


109"If fixed capital be not of a durable nature, it will require a great quantity of labour annually to keep it in its original state of efficiency; but the labour so bestowed may be considered as really expended on the commodity manufactured, which must bear a value in proportion to such labour. If I had a machine worth 20,000\$ which with little labour was efficient to the production of commodities, and if the wear and tear of such machine were of trifling amount, and the general rate of profit 10 per cent, I should not require much more than 2000\$ to be added to the price of the goods, on account of the employment of my machine; but if the wear and tear of the machine were great, if the quantity of labour requisite to keep it in an efficient state were that of fifty men annually, I should require an additional price for my goods, equal to that which would be obtained by any other manufacturer who employed fifty men in the production of other goods, and who used no machinery at all.” Ibid., p. 39.
"Suppose I employ twenty men at an expense of $1000/$. for a year in the production of a commodity, and at the end of the year I employ twenty men again for another year, at a further expense of $1000/$. in finishing or perfecting the same commodity, and that I bring it to market at the end of two years, if profits be 10 per cent, my commodity must sell for $2310/$.; for I have employed $1000/$. capital for one year, and $2,100/$. capital for one year more. Another man employs precisely the same quantity of labour, but he employs it all in the first year; he employs forty men at an expense of $2000/$. and at the end of the first year he sells it with 10 per cent profit, or for $2,200/$. Here then are two commodities having precisely the same quantity of labour bestowed on them, one of which sells for $2,310/$.—the other for $2,200/$."

Ibid., p. 37.

Ibid., p. 42.

Supra., p. 14, Note 62.

Supra., p. 11, Note 62; Supra, pp. 12-25.

Supra., p. 21, Note 94.


Supra., p. 213.

Supra., pp. 12-25.

CHAPTER V

THE COSMOLOGY OF DAVID RICARDO

... [England's] ... political economy belongs to the period in which the class-struggle was as yet undeveloped. Its last great representative, Ricardo, in the end, consciously makes the antagonism of class-interests, of wages and profits, of profits and rent, the starting point of his investigations, naively taking this antagonism for a social law of Nature ... ... (Karl Marx. Capital. "Afterword to the Second German edition.")

Man was forced to resign himself to secular perdition: he was doomed either to stop the procreation of his race or to condemn himself wittingly to liquidation through war and pestilence, hunger and vice. Poverty was nature surviving in society; that the limitedness of food and the unlimitedness of men had come to an issue just when the promise of boundless increase of wealth burst in upon us made the irony only the more bitter. (Karl Polanyi. The Great Transformation.)

As we have seen in the preceding chapters, Ricardo's effort to develop a general theory of economic relationships was a direct by-product of his overriding policy objectives. This much is abundantly clear. His concern was less to develop a universally valid theory of value than to develop theoretical generalizations to explain and justify his policy recommendations. Indeed, as has been noted, Ricardo complained frequently of the difficulties he experienced in formulating a theory of value from the incomplete and fragmentary notions that he had advanced in his bullion pamphlets and the Essay on Profits. Far from an "objective" statement of
the material relationships that constitute economic value, the
theory of value found in the *Principles of Political Economy and
Taxation* is related, as were his earlier pamphlets, to the under­
lying characteristics of the British economic system. It remains
to be considered how Ricardo perceived the economic situation in
which Britain found herself at the turn of the century.

**Progress and the Specter of Poverty**

Governing Ricardo's theoretical observations are certain
assumptions about the nature of material relationships between
individuals. These assumptions about the character of material
relationships form a highly deterministic whole, revealing Ricardo's
implicit understanding of society as a causal mechanism. Perhaps
paramount among these assumptions is his belief that mankind is
constantly progressing in a materialistic sense; that men collec­
tively demonstrate an insatiable desire for wealth. And nations
are as men. All nations exhibit this desire to accumulate wealth
and they engage in trade and the development of manufactures to
accomplish this object. As we shall see, this is both the motive
force and the Achilles' heel of the system as a whole.

In a letter to Brown of 13 Oct. 1819, Ricardo comments on
the acquisitive nature of men and the concomitant drive of nations
to enhance their material productivity:

... Manufactures and trade are alternatively the cause
and effect of wealth. An agricultural nation without trade
and manufactures cannot be rich, because neither an individual
or a nation can be said to be rich, if it have only food to
eat. An agricultural nation might however have the command of a great quantity of labour besides that employed on the land, which it might expend on war, or in supporting the rude ostentation and magnificence conferred by a great number of retainers. Such a nation would have powerful resources, and would I think be more than a match for a country of the same extent and fertility which was also a manufacturing country. Why have we not heard of any such Agricultural nation? Because none ever persevere in the course from which they commence—they prefer manufactures to menial servants—instead of a great man having a thousand persons about him ready to obey his mandates, they are accumulated in workshops manufacturing his lace, his china and his furniture, or they are digging the earth for the purpose of obtaining the precious metals of which he is so greedy. Give a country wealth, or let it acquire wealth, and it ceases to be purely agricultural, not because there is anything which necessarily obliges it to be anything else, but because with wealth a desire for manufactures is excited, and this desire becomes a powerful stimulus to the accumulation of capital in order that the desire may be gratified . . . .

This basic assumption of human psychology—that men collectively demonstrate an insatiable desire for wealth—is at the heart of Ricardo's understanding of the productive process. It is interesting to note that this assumption was not universally accepted by Ricardo's contemporaries. Malthus, in particular, opposed him in this view, insisting that to understand the nature of the productive process one had first to appreciate the fact that wants were limited; that the chief obstacle to the accumulation of wealth was a lack of demand for the goods and services produced by the system. In a letter to Ricardo of 26 Jan. 1817, Malthus repudiates Ricardo's contention that because demand is inelastic the factors which account for the supply of goods and services are the only true sources of the accumulation of wealth:

... We see in all countries around us, and in our own particularly, periods of greater and less prosperity, and sometimes of adversity, but never the uniform progress which you seem
alone to contemplate.

But to come to a still more specific and fundamental cause of our difference, I think it is this. You seem to think that the wants and tastes of mankind are always ready for the supply; while I am most decidedly of the opinion that few things are more difficult, than to inspire new tastes and wants, particularly out of old materials; that one of the great elements of demand is the value that people set upon commodities, and that the more completely the supply is suited to the demand the higher will this value be, and the more day's labour will it exchange for, or give the power of commanding. . . . I am quite of opinion that practically the actual check to produce and population arises more from want of stimulus than want of power to produce.²

It will be argued here that Ricardo's predisposition to explain the accumulation of wealth by reference to the variables which influence the cost of production is a direct result of his underlying assumption of a universal human psychology. Demand variables, we may recall, were important to Ricardo in the short-run only. In the long-run, demand was assumed to be inelastic. Ricardo thus concentrates on cost of production to explain the accumulation of wealth. To Ricardo, then, the proposition was quite clear. Because men know no bounds in their desire to accumulate wealth, progress is inevitable. Systems of agriculture are devised that enable men to accumulate wealth which, in turn, create the revenue necessary for the establishment of manufactures. Supply creates its own demand. And out of the revenues created by the process of manufacturing is a source of wealth that is capable of sustaining a greater population. The cycle repeats itself. Greater numbers of people necessitate an enhanced agricultural production which creates new sources of revenue for expansion of the manufacturing sector, and so on. It is all highly deterministic in nature.³
In the aforementioned letter to Brown, Ricardo speculates on these relationships:

It is the accumulation of wealth from Agriculture which first gives the notion and the means of establishing Manufactures. Manufactures in their turn become the cause of new accumulations of capital which tend to produce a fresh demand for labour, an increased population, and a greater consumption of agricultural produce. Thus Agriculture is alternatively the cause and effect of manufacturing industry.4

But if his underlying assumption of a universal human psychology allows him to formulate this highly deterministic picture of human progress, it is also the source of considerable consternation. By assuming demand to be inelastic in the long-run, it is the characteristics of the productive process that determine the process of accumulation. And the most important characteristic of this process of accumulating wealth is, as we have seen, the phenomenon of diminishing returns. Successive outlays of capital do not result in proportionate increases in productivity. Rather, each successive outlay of capital results in a smaller net addition to wealth than the previous expenditure of revenue. The problem for Ricardo is now apparent. The characteristics of the system form a logical paradox.

Ricardo's theory of value, the outgrowth of his writings on the bullion controversy and the corn law question, is his most abstract formulation of this problem. If the quantity of labour embodied in the production of a commodity is the source of its relative value, anything which has the effect of causing a greater expenditure of labour power on the production of that commodity will
have the concomitant effect of increasing its relative value. The predicament for mankind is that, with increasing opulence, proportionately greater quantities of labour become necessary to produce all commodities. Resources are not unlimited. And with a growing population men are constantly driven to seek new sources of raw materials which, however, require a proportionately greater expenditure of labour power to bring them to market. As more and more labour becomes necessary to market the products of the land, the tendency will be for the rate of profits to decline. This is so, according to Ricardo, because demand is inelastic. And the inelasticity of demand coupled with steadily increasing costs of production yield lower and lower rates of profit. Eventually, a point is reached where the rate of profit in all trades is so low that there is no longer an effective stimulus to accumulation. And when this point is reached progress is arrested due to the fact that sources of capital no longer exist out of which to finance expansion of Agriculture or manufacturing. The system is at rest; a general condition of homeostasis has arrested progress. The quest for wealth has been futile because, although mankind has achieved the production of greater wealth, the increase in population has served to check the amelioration of the condition of the great mass of men. Progress is arrested due to a law of nature—the limited productivity of the land.

The cultivation of less and less fertile land thus causes higher and higher costs of production and eventually produces
stagnation. One commentator has summed it up in this way:

Thus the law of diminishing returns from the land dominates the economic position, and governs the fortunes of all classes. The labourers, owing to their lack of restraint in propagation, are destined to remain perpetually poor. The capitalists may increase their capital, but owing to the continually rising price of the labourer's food the rate of profit upon capital must continually fall. The landlords alone will grow fat, for every extension of cultivation to inferior land brings to them an increase of rent. The law of diminishing returns will only cease to operate when it becomes impossible to cultivate land of a lower grade because it will not yield sufficient to replace the expense of cultivation together with a small profit for the capitalist who made the advances. When that day arrives, not only population, but also rents and the rate of profit on capital will reach a stationary state.5

The Class Basis of Ricardo's Analysis

As we have just seen the paradox of the system of production, in terms of Ricardo's model, was that in man's quest for greater material security he was unable to overcome the one obstacle to indefinite material progress, the limited productivity of the land. And this paradox is the foundation of the study of political economy. If the motive force of the system is assumed by Ricardo to be the insatiable desire for wealth, the further assumption of diminishing returns gives rise to theories of political economy which explain the social relationships which emerge in civil society as a by-product of this paradox. And these relationships are class relationships. That this is the proper study of political economy, Ricardo announces at the outset of his Principles of Political Economy and Taxation:

The produce of the earth—all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community; namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by
whose industry it is cultivated.

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population, and on the skill, ingenuity, and instruments employed in agriculture.

To determine the laws which regulate this distribution, is the principal problem in Political Economy.

Thus the "laws" which regulate the distribution of wealth among the three classes of the community, which together form the content of political economy, represent the principles which govern relationships in civil society. Political economy is thus, more broadly speaking, a theory of civil society. The principles which govern the production of wealth explain, as well, the characteristics of a wealth-producing society. Society is conceptualized as a mechanism for the production of wealth. And for Ricardo, at least, this mechanism can be best understood by analyzing the "laws" which regulate the distribution of wealth in society and the necessary class relationships that are a by-product of these "laws."

Viewed from this perspective, the "laws" which govern the distribution of wealth in civil society and the class relationships which they engender are the manifestation of the paradox which faces man in his quest for greater material security. If the genesis of civil society for Ricardo is contingent with the advent of man's quest for greater material security, civil society also represents, by the very nature of the class relationships which characterize it, the road block to progress. The paradox of the system, then, is nothing less than the nature of the class relationships of civil
society. The task which Ricardo sets for himself is to understand the nature of these class relationships in light of their relationship to the accumulation of wealth.

* * *

There are several interrelated aspects of Ricardo's basic understanding of class relationships which must be mentioned. First, for Ricardo, the class relationships of civil society are understood to be causal relationships; that is, they are necessary relationships, ones which emerge in the natural course of economic development.

With Ricardo the prevailing division is no temporary one which may give place to some other sort under different circumstances. It is the "natural course" into which "the produce of the earth—all that is derived from its surface by the united application of labour, machinery, and capital—is divided among the three classes of the community."7

That the distribution of the produce among the three classes of the community is the natural and inevitable result of material progress thus refers to Ricardo's implicit assumption that the factors of production, the interdependence of which is the essence of the productive process, are owned by different and distinct groups of individuals. The motive force of the system consists of the payments of rent, profit, and wages which cause the owners of the respective factors of production to combine their resources in the production of wealth.

If, in principle, the distribution of the produce between the three classes of the community—landlord, labourer, and capitalist—is the necessary and inevitable result of a society organized for the production of wealth, the relative distribution of the national
product between these three classes is equally deterministic. The phenomenon of rent is the key to his whole argument. At one and the same time, this phenomenon explains the existence of landlords as a class and the concept of diminishing returns; the "natural price" of labour and the rate of profits, as concepts, are merely corollaries of his initial assertions on the subject of rent. Rent, as we may recall, was conceptualized in the following manner: Gross receipts - Costs of production - Profit = Rent. Rent was thus understood by Ricardo to be the last source of income to be derived from the employment of land in agricultural pursuits. As such, rent was conceptualized as the natural concomitant of the progression of wealth in a country; that is, rent was understood as an index of diminishing returns. It was only after lands of increasingly inferior quality were called into production—the result of growing numbers of people, the direct by-product of increasing opulence—that rent existed as a payment, or landlords existed as a class. As an index of diminishing returns, Ricardo concluded that, with every progression in material welfare, rent would constitute a larger and larger share of the distribution of the total national product.

Thus, to Ricardo, the existence of a landlord class was a totally natural phenomenon, the result of the diminishing productivity of the land. Equally natural, therefore, was the growth of this class in civil society. The function of greater wealth and population and, therefore, of the cultivation of increasingly inferior land. Nor, as a natural phenomenon, was this to be feared. The high prices
of which Ricardo was so concerned, were not thought to be the by-product of high rent. High rent and high commercial prices were the result of high costs of production—the increasingly limited productivity of the land.

What . . . [Ricardo was] intent upon showing was that the payment of rent to somebody was inevitable and that the price of corn was not raised thereby. That there should be a particular class of people whose opportune position enabled them to reap the benefit of this was accepted as a part of the inevitable, foreordained structure of society.9

If, for Ricardo, rent naturally constituted a larger and larger share of the total national product—because of diminishing returns—so did wage payments; and for the same reason, namely, the rising costs of production on lands of increasingly inferior quality. Ricardo writes of the labouring class:

Labour, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution.

The power of the labourer to support himself, and the family which may be necessary to keep up the number of labourers, does not depend on the quantity of money which he may receive for wages, but on the quantity of food, necessaries, and conveniences become essential to him from habit, which that money will purchase. The natural price of labour, therefore, depends on the price of the food, necessaries, and conveniences required for the support of the labourer and his family. With a rise in the price of food and necessaries, the natural price of labour will rise; with the fall in their price, the natural price of labour will fall.10

Thus, according to Ricardo, with the increase in the opulence of civil society, wage payments, like rent, constitute a larger and larger relative share of the total national product. The cultivation of marginal agricultural lands, a by-product of the increase in
wealth and population, has the effect of raising the cost of food and necessaries to the labourer. The "natural price" of the labourer is thus constantly increasing. Here again, Ricardo leaves little room for reconceptualizing the problem. If the existence of the landlord class was caused by the cultivation of marginal lands—and was, therefore, necessary—the existence of the labouring class was seen to be equally dependent on the wage payments from the capitalist class. Nor could these payments, in the long run, differ from the "natural price" of the labourer. If wage payments should exceed this "natural price" the result would be both a diminution of the rate of profit, and thus of investment in capital equipment, and an increase in the rate of population growth; in other words, ultimately, a decrease in the average standard of living. Likewise, should these payments not equal the "natural price" of labour, although the rate of profit would momentarily increase, the wage labourer would be unable to subsist—the attendant consequences of which would be a reduction in the efficiency of labour, and eventually of his numbers, leading once again to a decrease in the rate of profits. Thus the situation of the labouring class, like that of the landlord, is a fixed attribute of the system. High prices were not attributed by Ricardo to the rise in rent; neither were they attributed by him to the rise in wage payments.

But high prices persist as a natural concomitant of the system. And, as a country advances in the accumulation of wealth, one can look forward only to even higher prices. The effect of these higher
prices on the rate of profit is obvious. The rate of profit for all trades must constantly decline:

The natural tendency of profits then is to fall; for, in the progress of society and wealth, the additional quantity of food required is obtained by the sacrifice of more and more labour. This tendency, this gravitation as it were of profits, is happily checked at repeated intervals by the improvements in machinery, connected with the production of necessaries, as well as by discoveries in the science of agriculture which enable us to relinquish a portion of labour before required, and therefore to lower the price of the prime necessary of the labourer. The rise in the price of necessaries and in the wages of labour is however limited; for as soon as wages should be equal ... to ... the whole receipts of the farmer, there must be an end of accumulation; for no capital can then yield any profit whatever, and no additional labour can be demanded, and consequently population will have reached its highest point. Long indeed before this period, the very low rate of profits will have arrested all accumulation, and almost the whole produce of the country, after paying the labourers, will be the property of the owners of land and the receivers of tithes and taxes.

Thus there is a fixed limit on the growth of the capitalist class in civil society. Accumulation, the sole purpose for which the capitalist exists, diminishes in proportion to the rate of investment. Higher prices and lower profits, the "natural" outcome of the productive process, thus spawn an equally "natural" set of relationships in civil society—class relationships. And these relationships are as necessary as high prices and low rates of profit. Both are the product of diminishing returns. Thus the characteristic features of civil society are as determinate as the relationships of land, labour and capital in the productive process.

* * *

A second characteristic of Ricardo's class analysis, apart from the inevitability of class relationships in civil society, is
his assumption of the mutual antagonism of interests exhibited by
the respective classes. To Ricardo, once again, this was an entirely
"natural" phenomenon. If the classes of civil society arose "natur­
ally," as the logical concomitant of the productive process, the
behavior exhibited by them was also "natural;" that is, predictable.
And this predictability stems from the fact that Ricardo deduces the
behavior of the respective classes from the nature of the productive
process which first gave rise to these classes.

Writing to McCulloch on 7 May 1822, Ricardo takes exception
to McCulloch's expressed belief that the interests of individuals
and that of the community are never at variance:

"The interests of individuals is never opposed to the interests
of the public."
In this I do not agree. In the case of machinery the
interests of master and workman are frequently opposed. Are
the interests of landlords and those of the public always the
same? I am sure you will not say so.12

From Ricardo's perspective, therefore, civil society was
not characterized by the homogeneity of interests. Rather, each
class exhibited an identifiable self-interest. This is most obvious
in the case of the class of landlords. As a country progresses in
wealth and population, according to Ricardo, it is the landlord who
stands to gain the most:

In speaking of the rent of the landlord, we have rather
considered it as the proportion of the produce, obtained with
a given capital on any given farm, without any reference to
its exchangeable value; but since the same cause, the difficulty
of production, raises the exchangeable value of raw produce paid
to the landlord for rent, it is obvious that the landlord is
doubly benefited by the difficulty of production. First he
obtains a greater share, and secondly the commodity in which
he is paid is of greater value.13
Thus it is, according to Ricardo, due to the laws of political economy, that the interest of the landlord is always adverse to the interest of the other classes: "It follows then, that the interest of the landlord is always opposed to the interest of every other class in the community. His situation is never so prosperous, as when food is scarce and dear: Whereas, all persons are greatly benefited by procuring food cheap . . . ."14

Together with the fact that it is the landlord whose interests are served in the process of the accumulation of wealth, the landlord is seen to possess no interest in investing his returns on the land. His interests are not served by making the land more productive; it is rather the opposite. The interests of the class of landlords are served optimally by inefficient agricultural modes of production. Rent only exists as a payment, after all, where lands of marginal productivity are called into production. Any increase in agricultural productivity—other things being equal—would have the effect of reducing the amount of marginal land under cultivation, thereby reducing rental payments. It is therefore not in the interest of the landlord class to invest even a part of their returns on the land. To expect otherwise is clearly absurd. The landlord has no interest in procuring cheap food and necessaries.

With respect to the labouring class, it was Ricardo's understanding that their interests were indistinguishable from the maintenance of the fund for their support. The labourers' interest was thus seen to be tied directly to the availability of inexpensive
food and necessaries; that is, their interests were directly opposed to the interests of the landlord. The predicament of the labourer, from Ricardo's perspective, was as follows. As food and other necessities of life become more and more expensive, the fund for the maintenance of labour must necessarily increase. And, as the source of this fund is the profits of the capitalist class, with every increase in the average cost of the labourer's subsistence the rate of profits of the class of capitalists declines. This phenomenon, in turn, causes the capitalist to seek alternative modes of production. Machinery is introduced into the productive process to eliminate or minimize the ever rising cost of labour. And, as more and more machinery is introduced into production, fewer and fewer labourers are needed in the productive process:

... The discovery and use of machinery may be attended with a diminution of gross produce; and whenever that is the case, it will be injurious to the labouring class, as some of their number will be thrown out of employment, and population will become redundant, compared with the funds which are to employ it.15

Thus, according to Ricardo, "the opinion entertained by the labouring class, that the employment of machinery is frequently detrimental to their interests, is not founded on prejudice and error, but is conformable to the correct principles of political economy."16 The labourers' interest, on the one hand, is thus opposed to the class of landlords. The interest of the labourer demands inexpensive provisions for his subsistence, the very thing which would detract from total rental payments, the interest of the landlord. As against the class of capitalists, on the other hand, the labourers' interest is
opposed to the introduction of machinery on which the capitalist must rely to mitigate the rising cost of labour.

But "progress" is inevitable. Because the class of landlords has no interest in the provision of cheap food and necessaries, because with the introduction of increasingly marginal lands into cultivation total rental payments will increase, the cost of the labourer's subsistence will continually rise. This affects the interest of the capitalist class adversely. As the cost of the labourer's subsistence increases, a greater proportion of the revenue of the capitalist class must go to the maintenance of the subsistence level of the labouring class, thus reducing the rate of profits. As the class of capitalists exists for the purpose of accumulating wealth, it is obvious that with every rise in the cost of the labourer's subsistence, the incentives of the capitalist to accumulate wealth decline. Thus the capitalist class, like the class of labourers, has an interest in the provision of inexpensive subsistence to the labourer.

But, like the labouring class, the capitalist cannot effect the desired end. In the face of rising subsistence costs, therefore, the capitalist is motivated to revolutionize the productive process. Although contrary to the interests of the working class, it is the only real alternative available to the capitalist. And although the introduction of machinery would appear to contradict the interests of the labourer, in the long run, it is also the only real alternative open to the labourer:
The employment of machinery could never be safely discouraged in a state, for if a capital is not allowed to get the greatest net revenue that the use of machinery will afford here, it will be carried abroad, and thus must be a much more serious discouragement to the demand for labour, than the most extensive employment of machinery; for while a capital is employed in this country, it must create a demand for some labour; machinery cannot be worked without the assistance of men, it cannot be made but with the contribution of their labour. By investing part of a capital in improved machinery, there will be a diminution in the progressive demand for labour; by exporting it to another country, the demand will be wholly annihilated.  

* * *

The paradox faced by society in the production of wealth may thus be reformulated. Not only is the paradox apparent in Ricardo's technical understanding of the productive process, it is also apparent in the very structure of civil society. The phenomenon of diminishing returns, from a sociological perspective, is the cause of the class relationships in civil society. Not only are class relationships seen to be the logical outgrowth of the productive process, the character of these relationships is also predetermined. The antagonistic nature of interests in civil society is thus a corollary of the paradox inherent in the productive process. Rational behavior demands that each class of individuals maximize its interest. But, as we have seen, the very structure of class interests in civil society is the embodiment of diminishing returns. Civil society is the sociological image of the process of production.
The International Division of Labour and the Doctrine of Comparative Advantage: Free Trade Imperialism

The progress of mankind in the acquisition of wealth is thus thwarted by diminishing returns. Each successive "stage" in the accumulation of wealth is accompanied by a lower rate of profit, and this is reflected by the growing imbalance in the distribution of resources among the respective classes in civil society. As a society accumulates wealth a greater and greater proportion of the total national resource goes to the landlord. Of necessity this means higher and higher costs of subsistence to the working-man. As it is the capitalist who must provide for the labourer, the net returns on his investments must decline. As we have seen, this process ultimately culminates in stagnation. It is for this reason that later commentators were led to label Ricardian economics as the "dismal science."

But if the ultimate prospects for mankind were dismal, there was much that could be done to postpone that inevitable day when progress would be arrested. In an article which bears the title "Funding System," written by Ricardo for the Encyclopaedia Britannica in 1820, Ricardo outlines his position on the falling rate of profits and indicates that the only recourse to the phenomenon of diminishing returns is foreign commerce:

... With every increased difficulty of producing additional supplies of raw produce from the land, corn, and the other necessaries of the labourer, would rise. Hence wages would rise. A real rise of wages is necessarily followed by a real fall of profits, and, therefore, when the land of a
country is brought to the highest state of cultivation,—when more labour employed upon it will not yield in return more food than what is necessary to support the labourer so employed, that country is come to the limit of its increase both of capital and population.

The richest country in Europe is yet far distant from that degree of improvement, but if any had arrived at, by the aid of foreign commerce, even such a country could go on for an indefinite time increasing in wealth and population, for the only obstacle to this increase would be the scarcity, and consequent high value, of food and other raw produce. Let these be supplied from abroad in exchange for manufactured goods, and it is difficult to say where the limit is at which you would cease to accumulate wealth and to derive profit from its employment . . . .

What Ricardo proposes as the alternative to rising costs and lower profits is thus the international division of labour. In this connection Ricardo once commented that given a sufficient supply of cheap food and other raw produce England was capable of becoming the "workshop of the world." In return for finished goods England could import food and other necessaries. Therefore, "for all practical purposes, the limits to economic progress were political and not economic in character."

It was thus to rectifying the restrictions on the free flow of commerce imposed by the Bank Restriction and the corn laws that Ricardo devoted most of his attention. It was Ricardo's opinion that the structure of the British economy mandated that she become a regular importer of foodstuffs. "... Our manufacturing superiority—our greater riches—our dense population, all have a tendency to make us importers of corn . . . ." Ricardo's effort to develop a general theory of economic relationships, as we have seen from our analysis in the preceding chapters, was thus a direct by-product of his
over-riding policy objectives; namely, his advocacy of the principle of free trade.

Thus it was free trade as a national policy that Ricardo felt could indefinitely postpone the negative effects of diminishing returns. And to justify and explain the free trade argument, Ricardo articulated the doctrine of comparative advantage. Like his other efforts to explain the basis of exchange, the doctrine of comparative advantage rests on the labour theory of value. Briefly stated, the doctrine of comparative advantage postulates the goal of the specialization of labour on a world-wide scale. It was assumed by Ricardo that the international division of labour would enhance a world-wide pattern of trade mutually beneficial to all parties. Given the principle of the labour theory of value each nation would concentrate on the production of those items in which it possessed a peculiar advantage; that is, each nation would concentrate on the production of those items which, comparatively speaking, required the least expenditure of labour power:

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.22
As advanced by Ricardo, therefore, the doctrine of comparative advantage stipulates that each country concentrate on the production of those items which require—comparatively—the least expenditure of labour power. One must note, however, that the "comparative" in comparative advantage does not refer to cross-national comparisons of labour productivity. Rather, it is within each country that these comparisons are made. It is the commodity or commodities which, of all the items that a country might produce, requires the least expenditure of labour power that determines what should be produced—regardless of international comparisons of labour productivity.

To use Ricardo's own example, suppose England and Portugal to be trading partners in cloth and wine. Suppose further that to produce a unit of cloth in England would require the labour of 100 men for one year; the same unit of cloth, produced in Portugal, would require the labour of 90 men for one year. To produce an equivalent amount of wine requires the labour of 120 men for a year in England and the labour of 80 men for a year in Portugal. From this example, it is quite evident that the labour costs for both the wine and the cloth are lower in Portugal than in England. But, from Ricardo's perspective, it does not follow that it would be advantageous for Portugal to produce both the wine and the cloth. Ricardo's discussion of this point in the Principles is quite explicit:

To produce the wine in Portugal, might require only the labour of 80 men for one year, and to produce the cloth in the same country, might require the labour of 90 men for the same time. It would therefore be advantageous for her to export
wine in exchange for cloth. This exchange might even take place, notwithstanding that the commodity imported by Portugal could be produced there with less labour than in England. Though she could make the cloth with the labour of 90 men, she would import it from a country where it required the labour of 100 men to produce it, because it would be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of wines to the manufacture of cloth.23

Thus, according to Ricardo, exchange between countries is different, in essence, than exchange within a single country. Within a single country, commodities are assumed to exchange in proportion to the labour time invested in their production. This is not the case with respect to international trade. "The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians."24 This is due, according to Ricardo, to the immobility of capital. Given the above example of England and Portugal, it would be logical if capital should flow from England to Portugal, enabling the Portuguese to produce both the wine and the cloth.

Experience, however, shews, that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself with all his habits fixed, to a strange government and new laws, check the emigration of capital.25

The doctrine of comparative advantage is therefore a major qualification of the principle of exchange implicit in the labour theory of value. Assuming the fluidity of capital,

the relative value of . . . [all] commodities would be regulated by the same principle as if one were the produce of Yorkshire,
and the other of London: . . . there could be no difference in
the rate of profit, and no other difference in the real or labour
price of commodities, than the additional quantity of labour
required, to convey them to the various markets where they were to
be sold. 2

By articulating the doctrine of comparative advantage, however, Ricardo
admits that there may be differentials between countries in the real
value of commodities and, consequently, in the rate of profits. The
question remains: on what basis are these differentials to be
explained?

It is only because Ricardo assumes that capital is not fluid
between nations that the doctrine of comparative advantage is necessary
to explain the appropriate conduct of foreign trade. The doctrine
of comparative advantage may therefore be seen as an effort to over­
come the limitations on international exchange which flow from the
assumption of the immobility of capital. In this respect, according
to Ricardo, comparative advantage as a doctrine possesses two distinct
advantages over an international system which stresses the attainment
of nation self-sufficiency. First, an international system of exchange
based on the doctrine of comparative advantage would, according to
Ricardo, increase the quantity of commodities available for purposes
of consumption. This follows from the specialization of labour
inherent in the international division of labour. By saying that
each country possesses a distinct "advantage" in the production of a
single or a select group of commodities what one is saying is that
the "advantage" consists in the ability to produce these commodities
with the expenditure of less labour power than any other commodities
which might be produced. International trade on this basis therefore maximizes the purchasing power of a given expenditure of labour. In other words, comparative advantage maximizes productivity.

Ricardo expresses the above relationships in the following manner:

No extension of foreign trade will immediately increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments ....

And again in the same chapter, he states:

It is quite ... important to the happiness of mankind, that our enjoyments should be increased by the better distribution of labour, by each country producing those commodities for which by its situation, its climate, and its other natural or artificial advantages, it is adapted, and by their exchanging them for the commodities of other countries ....

If, on the one hand, by the better distribution of labour, the doctrine of comparative advantage accounts for an approach to international trade which would maximize the aggregate stock of commodities available at any given time to the international community, it also possesses a second distinct advantage. By preferring the international division of labour, the doctrine of comparative advantage provides a framework within which a solution to the phenomenon of the falling rate of profits may be understood. It is important to note that, according to Ricardo, the better distribution of labour will not, in itself, contribute to a rising rate of profit. "It is not ... in consequence of the extension of the market that the rate of profits is raised ...." What is required to effectuate a rising rate of profit, as well as an enhanced stock of
consumables is yet a further assumption about the nature of trade between nations.

In essence, this further assumption amounts to nothing more than Ricardo's theory of profits, understood this time within the context of the doctrine of comparative advantage. From our preceding analysis we know that profits, for Ricardo, are a function of the cost of maintaining the labourer at a level of subsistence. Consequently, trade between nations based on the international specialization of labour is not a sufficient condition to sustain a rising rate of profits. In addition, the trade must assume a specific character:

Foreign trade . . . though highly beneficial to a country, as it increases the amount and variety of the objects on which revenue may be expended, and affords, by the abundance and cheapness of commodities, incentives to saving, and to the accumulation of capital, has no tendency to raise the profits of stock, unless the commodities imported be of that description on which the wages of labour are expended.30

There are, according to Ricardo, only two ways in which capital may be accumulated. "... It may be saved either in consequence of increased revenue, or of diminished consumption."31 It follows, therefore, that

if, instead of growing our own corn, or manufacturing the clothing and other necessaries of the labourer, we discover a new market from which we can supply ourselves with these commodities at a cheaper price, wages will fall and profits rise . . . .32

Thus the doctrine of comparative advantage represents not only an attempt to generalize on a world-wide scale about the advantages inherent in the division of labour but it represents also an attempt
to reconcile the paradox of diminishing returns inherent in Ricardo's theory of progress. By advocating the international division of labour as the reconciliation of this paradox, Ricardo is arguing for a conceptualization of international trade that would mitigate the forces impelling the system to stagnation. In other words, the doctrine of comparative advantage is a theoretical effort spawned by the perceived necessity to maintain high rates of profit.

It is of the utmost importance, however, to note that this attempt to reconcile the paradox is not a reconciliation at all but rather an attempt to establish the necessity of a particular type of foreign trade—raw produce for manufactured goods—on a theoretical basis. In so doing it also represents an attempt to establish a theoretical basis on which to justify the existence of the unequal distribution of wealth throughout the world community. What Ricardo is arguing for is not a "balanced" system of growth wherein which each country would concentrate on maximizing domestic rates of profit but, rather, for an international system based on the specialization of function. The maximization of profits through the international division of labour is an attempt to establish the prerogatives of the developed world—chiefly Britain—in the sphere of the accumulation of capital. The solution to the problem of diminishing returns becomes a justification for the concentration of capital in the developed world.

That the theory of comparative advantage leads to the unequal division of wealth in the international community can be explained
in the following manner. If, for Ricardo, the rate of profit is primarily a function of the cost of maintaining the labourer at a subsistence level, anything which reduces this cost will increase the rate of profits. The doctrine of comparative advantage facilitates the maintenance of a high rate of profit in that it establishes a framework of trade within which costs of production can be maintained at a minimum. By utilizing the produce of virgin lands, through trade, the cost of maintaining the labouring population in the capital intense sector of the international community can be held to a minimum. But this flow of trade—raw produce for manufactured items—means, as well, that it is the profits of the developed world that are of central concern.

It has been my endeavor to shew throughout this work, that the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of a fall of the necessaries on which wages are expended. From the perspective of the underdeveloped world, therefore, this trade is beneficial in only one sense. It is beneficial only in the sense that it contributes to the mass and variety of consumer items available for purposes of consumption. In no sense is it a profitable trade. The importation of manufactured items by the underdeveloped sector of the international community will not enhance the rate of profits in this sector. The doctrine of comparative advantage, in other words, presumes the exportation of profits (or profitability) from the rural and agricultural nations to those nations enjoying a high degree of capital intensity.
SUMMARY

Toward a Distributive Theory of Justice: The Bourgeois Class as the Universal Class in Civil Society

The labour theory of value, developed as a mode to understand the pernicious effects of the Bank Restriction and the corn laws, is therefore an attempt to establish in theory the universality of bourgeois values. For Ricardo, the function of the labour theory of value as a tool of analysis was to explain the nature of the rate of profits and, through such explanation, to establish principles of public policy which would serve to maximize profits. All other sociological, economic and political considerations were peripheral to his interests:

[His] ... argument implies several very important assumptions: first, that there can be no accumulation of capital without the motive of personal profit; second, that there must be a particular class that is to receive and hold in trust this social surplus; and, finally, that its having been designated the trustees of this fund constitutes this class the rightful dispensers of the fund, that is, the controlling and directing agent of the producing and distributing process.35

It is in this context that Ricardo's arguments for free trade must be understood. Both his arguments against the Bank Restriction and the corn laws presumed two things: first, that it was necessary to mitigate the tendency of developed economies towards diminishing returns—here Ricardo is thinking primarily of England and of the shortage of arable land so characteristic of that country—and, secondly, that this tendency could be mitigated through trade for the raw
produce of rural agricultural nations. But to achieve this pattern of trade required an international exchange free from restrictions. The Bank Restriction and the corn laws, by restricting the free flow of commerce, were negative influences in that these statutes diminished the efficaciousness of the international division of labour. By raising the price of raw produce from foreign sources, the impact of the Bank Restriction and the corn laws was to raise the costs of production in Britain. These statutes, in other words, enhanced the tendency towards diminishing returns.

Throughout all of Ricardo's publicly articulated positions on questions of public policy, then, runs the same theme: that property values must be preeminent as the criteria upon which questions of public policy are decided. Ricardo's position on Parliamentary reform is another case in point.36 His emphasis on the need for a strong and independent House of Commons, the extension of the sufferage and the secret ballot all reflected his belief in the need to establish bourgeois property values on a firm constitutional base. Against those who feared the radical nature of the reforms which he proposed, Ricardo made two basic arguments. First, that the landed interests, through their influence in Parliament, were predisposed to legislation inimical to the capitalist class; that is, to the accumulation of capital. And, secondly, that the extension of the right to vote to the common man, through the secret ballot, was an efficient means to foster legislation favorable to the bourgeois class without endangering the preeminent position of that class. The ordinary man, Ricardo argued, knew his
self-interest to be tied to that of the capitalist class and was, therefore, no threat to the values represented by that class or the system from which these values were generated. Only those not actually gainfully employed would be disenfranchised. Anyone, he argued, that derives a measure of material benefit from the system would realize that the continued enjoyment of these rewards depended on the continued ability of the capitalist class to accumulate wealth, the source of these rewards.

The standpoint from which Ricardo advances the above position is his assumption of the predictability of human behavior within the context of a socio-economic system that functions through the distribution of material rewards. This is also the source of his objection to the poor laws. Ricardo, as we have seen, was fundamentally opposed to the poor laws on the grounds that they represented a negative incentive to productivity, while, at the same time, contributing to the increase in population growth.\textsuperscript{37} The public revenues necessary to support the unemployed, on the one hand, represented an unproductive financial expenditure in the sense that these funds served to support a class of individuals who remained outside the productive process; who, in other words, contributed nothing to the accumulation of wealth, while existing on funds that might otherwise be utilized in the productive process. And, on the other hand, while their labour power was effectively eliminated from the productive process, the public revenues which sustained their existence contributed, in addition, to a growth in their numbers. Utilizing the key assumptions of the Malthusian
theory of population, Ricardo reasoned that any source of revenue, exogenous to the productive process, which served to sustain a segment of the population was dysfunctional to the system, dysfunctional in the sense that the rate of population growth would be unchecked by the forces of the productive process. The increase in the number of individuals supported at public expense would necessarily mean a reduction in the rate of profits. And the only guarantee against such a liability would be to invest the bourgeois class with the power to regulate the rate of population growth. This could only be achieved if the capitalist retained control over the distribution of material rewards.

This dual liability—the support of individuals not actively engaged in the productive process and the consequent disproportionate increase in their numbers—could only be rectified through the abolition of the poor laws and, in their place, the establishment of savings banks. Savings banks, according to Ricardo, would possess several major advantages over the poor laws. First, they would provide incentives to save—that is, to plan for the future. These savings could then be utilized by the working population during periods of unemployment, vitiating the need for the poor laws. Secondly, these same savings could be utilized as a source of revenue for the expansion of capital equipment. Last, and perhaps most importantly, the incentives to save would have the effect of reducing the aggregate amount of money available for current consumption, thus producing the desired reduction in the rate of population growth.
And the same general reasoning governs Ricardo's discussion of taxation. Taxes are but a necessary evil. They are necessary for the maintenance of governmental functions but evil in the sense that all taxes impinge on the power of the capitalist class to accumulate. Taxes, therefore, should be as low as possible. And, in particular, those taxes which impinge the least on the power to accumulate should be utilized to finance governmental expenditures. Once again it can be seen that Ricardo's primary concern was with perpetuating the instruments of control of the bourgeois class—the control over the accumulation of wealth and the concomitant control over the distribution of material rewards.

By exercising control over the system of incentives, the bourgeois class could perpetuate, in the face of the adversity of diminishing returns, high rates of profit. This control could only be achieved, however, through a correct understanding of the necessary criteria for correct public policy. And such examples as the poor laws, the Bank Restriction and the corn laws provided Ricardo with ample opportunity to unmask the impolicy of these decisions by developing an alternative criterion by which such decisions should be made. It is assumed by Ricardo that a clear understanding of the principles which govern the accumulation of wealth are all that is needed to formulate enlightened social policy. And these principles emerge most clearly in Ricardo's treatment of rents, profits and wages understood from the perspective of the labour theory of value. Anything which increases the cost of the labourer's subsistence
reduces the rate of profits. Therefore all public policy must be judged by the standard of its effect on the accumulation of wealth. Free trade becomes the slogan for appropriate public policy because policies of non-restriction will best serve to perpetuate the control of the bourgeois class over the system of incentives, thereby enhancing the ability to accumulate capital.

Were it not for the necessity of taxation, governments would be best which interfered least:

... Political Economy, when the simple principles of it are once understood, is only useful, as it directs Governments to right measures in Taxation. We very soon arrive at the knowledge that Agriculture, Commerce, and Manufactures flourish best when left without interference on the part of the government... 39

What Ricardo advocated, therefore, was a system of social control based on the principles of bourgeois economics. It is to his understanding of power relationships in civil society that we now turn.
FOOTNOTES


3 Ricardo fully agreed with Malthus' principle of population growth. In a letter to Francis Place, Ricardo is critical of Places' argument that population increases in an arithmetical ratio. "Your table supposes the increase of population to be the same the last year that it is the first—surely this cannot be right. Population does not indeed increase in the same steady geometrical ratio that money does, which accumulates at compound interest, but still it increases at some rate which may be called geometrical. Your table is constructed on a principle of arithmetical increase." Letter to Place, 9 Sept. 1821, *Ibid.*, IX, 50.


5 Oswald St. Clair, *A Key to Ricardo* (New York: Augustus M. Kelley, 1965), p. 12. "I have already said that long before this state of prices was become permanent, there would be no motive for accumulation; for no one accumulates but with a view to make his accumulation productive .... Without a motive there could be no accumulation .... The farmer and manufacturer can no more live without profit than the labourer without wages. Their motive for accumulation will diminish with every diminution of profit, and will cease altogether when their profits are so low as not to afford them an adequate compensation for their trouble, and the risk which they must necessarily encounter in employing their capital productively." David Ricardo, *The Principles of Political Economy and Taxation*, Piero Sraffa (ed.), *Works and Correspondence*, I, 5.

6 *Ibid*.


8 *Supra.*, p. 192.


11 *Ibid.*, p. 120.

12 Letter to McCulloch, 7 May 1822, Piero Sraffa (ed.), *Works and Correspondence*, IX, 194.


18 David Ricardo, "Funding System," *Works and Correspondence*, IV, 179.


21 Letter to Trower, 4 Oct. 1821, Piero Sraffa (ed.), *Works and Correspondence*, IX, 86.


Malthus noticed the tendency of Ricardo's concept of comparative advantage to redound to the benefit of the developed world. "I do not, I confess, see how it is possible to resist the conclusion that, if the nominal price of your corn and labour be double that of surrounding nations, in every million's worth of goods you exchange, or every million of subsidy you grant, you are able to command twice as much foreign labour, as if your corn and labour were of the same price with your neighbour's" . . . . Malthus to Ricardo, 26 Aug. 1815, Ibid., VI, 255.

There is evidence as well that Ricardo, himself, understood the implications of his position on this question. Writing to Malthus, he indicates that he is aware that, assuming the organization of international trade on the principle of comparative advantage, raw produce would be imported by the developed world in exchange for manufactured goods and, further, that this must necessarily have the effect of decreasing "foreign profits." " . . . Raw produce is always imported into the relatively rich country, and never exported from it, but on occasions of dearth or famine. I have no doubt that if the free importation of corn is allowed into this country, inasmuch as it will direct foreign capital to foreign land, it will tend to lower foreign profits . . . ." Ibid., VI, 170.

In the liberal theory, Great Britain was merely another atom in the universe of trade and ranked precisely on the same footing as Denmark and Guatemala. Actually, the world counted a limited number of countries, divided into lending countries and borrowing countries, exporting countries and practically self-sufficient ones, countries with varied exports and such as depended for their imports and foreign borrowing on the sale of a single commodity like wheat or coffee. Such differences could be ignored by theory, but their consequences could not be equally disregarded in practice. Frequently overseas countries found themselves unable to discharge their foreign debts, or their currencies depreciated, endangering their solvency; sometimes they decided to right the balance by political means and interfered with the property of foreign investors. In none of these cases could processes of economic self-healing be relied upon, though according to classical doctrine those processes would unfailingly reimburse the creditor, restore the currency and safeguard the foreigner against similar losses. But this would have required that the countries concerned should be more or less equal participants in a system of world division of labour, which was emphatically not the case . . . ." Karl Polanyi, The Great Transformation: The Political and Economic Origins of our Time, p. 207.
.. British nineteenth-century statesmen, having discovered that free trade promoted British prosperity, were sincerely convinced that, in doing so, it also promoted the prosperity of the world as a whole. British predominance in world trade was at that time so overwhelming that there was a certain undeniable harmony between British interests and the interests of the world. British prosperity flowed over into other countries, and a British economic collapse would have meant world-wide ruin. British free traders could and did argue that protectionist countries were not only egotistically damaging the prosperity of the world as a whole, but were stupidly damaging their own, so that their behavior was both immoral and muddle headed. In British eyes, it was irrefutably proved that international trade was a single whole, and flourished or slumped together. Nevertheless, this alleged international harmony of interests seemed a mockery to those underprivileged nations whose inferior status and insignificant stake in international trade were consecrated by it. The revolt against it destroyed that overwhelming British preponderance which had provided a plausible basis for the theory. Economically, Great Britain in the Nineteenth Century was dominant enough to make a bold bid to impose on the world her own conception of international economic morality . . . ." Edward Hallett Carr, The Twenty Years' Crisis 1919–1939: An Introduction to the Study of International Relations (London: MacMillian and Co. LT. D., 1958), p. 81.

"I cannot overcome the temptation to repeat my quotation from the Bible: 'For unto every one that hath shall be given, and he shall have abundance: but from him that hath not shall be taken away even that which he hath.' That there is a tendency inherent in the free play of the market forces to create regional inequalities and that this tendency becomes the more dominant the poorer a country is are two of the most important laws of economic under-development and development under laissez faire." Gunnar Myrdal, Economic Theory and Underdeveloped Regions (New York: Harper and Row, 1971), p. 34.

"... The British economy being ahead industrially, foreign trade translated itself into an exchange of manufactures and services (shipping, banking, insurance) against primary products (mainly imported food and raw materials). Most of these were not produced by the colonies properly so called, but by autonomous countries, with the United States, Canada, Argentina, and Australia in the lead. The exchange benefited Britain in the measure to which it sustained the consequences flowing from the historical accident of having been first with the Industrial Revolution . . . .

"The Empire, other than India, did not give much direct advantage to British exports. What it did was to supply cheap food and raw materials, mostly from lands of European settlement which were either self-governing or in the process of becoming so. The acquisition of African colonies after 1880 was a poor bargain when measured against the advantage of free trade in foodstuffs and industrial goods with Europe, Canada, Argentina, and the United States. 'The advantage of the strategic lines of the empire was the preservation of a world of
free trade.' That world endured until 1914 and then collapsed in the two global wars unclaimed by Germany's challenge to Britain's position . . . ." George Lichtheim, Imperialism (New York: Praeger Publishers, 1971), p. 73.

36 Supra., pp. 79-85.
37 Supra., pp. 90-96.
38 Supra., p. 262.
39 Letter to Trower, 12 Nov. 1819, Piero Sraffa (ed.), Works and Correspondence, VIII, 132.
CHAPTER VI

THE SOCIAL AND ECONOMIC FOUNDATIONS

OF POLITICAL RATIONALITY

The same men who establish their social relations in conformity with their material productivity, produce also principles, ideas and categories, in conformity with their social relations. (Karl Marx. The Poverty of Philosophy.)

In the medium of technology, culture, politics, and the economy merge into an omnipresent system which swallows up or repulses all alternatives. The productivity and growth potential of this system stabilize the society and contain technological progress within the framework of domination. Technological rationality has become political rationality. (Herbert Marcuse. One-Dimensional Man.)

Political norms and laws are replaced by objective exigencies of scientific-technical civilization, which are not posited as political decisions and cannot be understood as norms of conviction or weltanschauung . . . . In place of the political will of the people emerges an objective exigency, which man himself produces as science and labour. (Helmut Schelsky quoted by Jurgen Habermas. Toward a Rational Society: Student Protest, Science and Politics.)

The Locus of Rationality in the Philosophy of David Ricardo

From the perspective of one contemporary commentator--David Kettler--the tradition of political philosophy may be thought of as a body of literature which has historically addressed itself to two basic questions. Kettler expresses the distinction in the following manner:
The major writers whose works are usually studied in the histories of political theory address their inquiries to two sorts of primary concerns: first, under what conditions can a claim to political power be said to be justified and sustainable and, second, how can proper care to public matters be secured, a care that, so far as possible, what is done will satisfy rational standards?  The first of these questions Kettler identifies as the problem of "authority," and the second as the problem of "rationality."

Although the answers to these questions are to a great degree inseparable—no understanding of the political philosophy of David Ricardo, for example, is possible without an understanding of his contention that the exercise of political authority must conform to rational standards—it is nevertheless true that there is an essential difference in the nature of the questions posed. And this difference is perhaps best expressed, as Kettler notes, in a recent work by Charles Lindblom:

We depart in this book from a long established inquiry that asks . . . [what] is an effective way to guard the guardians, protect liberty or democracy, obstruct tyranny, make power responsible . . . . We ask questions that respond to another kind of concern: [What is] . . . a good way to make decisions? to calculate and to weigh alternative courses of action? to achieve rationality in some sense? to avoid foolish decisions? 2

The concerns of David Ricardo, in light of the above distinction, were the concerns of the evolving tradition of political economy itself, that is, a concern with the rationality of governmental policy. As we have had occasion to note in Chapter I, the new science of political economy, and the Utilitarian tradition of which it was a part, amounted to an intellectual movement devoted to the development of a science of public policy. It is incorrect,
as we have seen, to think of the political economists, as advocates of \textit{laissez-faire}, in the sense most commonly associated with them; that is, as individuals who wrote of a "natural harmony" in human affairs, devoid of all political content. Their advocacy of \textit{laissez-faire} was not a denigration of the political per se but, rather, a call for the transformation of decision-making processes in British society. The questions posed historically by the emergent discipline of political economy are thus the same questions articulated above by Charles Lindblom: "'What is . . . a good way to make decisions? . . . to achieve rationality in some sense?'

Their concern was that public policy reflect the changing conditions of socio-economic life in Britain.

Thus David Ricardo, as a major figure in the tradition of political economy, is best thought of as a policy scientist; an individual whose primary concern was with the rationality of public policy. As a critic of the poor laws, Ricardo argued that these statutes contributed to an excessive growth in population while, at the same time, they inhibited the process of capital accumulation. Nothing could have been more irrational from Ricardo's perspective. The likely end result of the poor laws he felt to be economic stagnation and universal poverty. The Bank restriction and the corn laws had similar effects on the production of wealth. The Bank restriction of 1797 had the effect of producing a domestic inflation the consequences of which were two-fold. On the one hand, the inflation, by decreasing the value of British currency, increased
the costs of British commercial products to overseas buyers, thus producing international trade disadvantages for British manufacturers. On the other hand, the inflation had the effect of decreasing the value of property held in the form of money. The depreciation of the currency was thus, from Ricardo's perspective, inimical to the economic well-being of England. And the corn laws he felt only worsened the situation. By artificially maintaining the price of small grains, these laws reduced the profits of the industrial sector of the economy. The irrationality of these three public policies was evident, in Ricardo's eyes, to the extent that they inhibited the formation of capital, the sustaining and integrating force of the community.

What Ricardo advocated, as a rationally defensible alternative, was the policy of free trade. Continuing Kettler's typology, rationality in the corpus of Ricardo's writings is seen as "an immanent force." In other words, political rationality is perceived to be immanent "within the complex of structures and processes which . . . [are] imagine[d] to comprise the very substance of political reality." More specifically, from Ricardo's perspective, rationality is seen as "immanent within processes not themselves governmental, but . . . stand[ing] in relation to government as base to super-structure." Ricardo's advocacy of free trade as the public policy apropos to the needs of British society was an appeal to the implicit rationality of the "free" market; that the basic decisions which govern socio-economic relationships
are properly the product of the market mechanism, of the interplay between the forces of supply and demand. From this perspective, rationality may be understood as economic efficiency, the criterion of which is the rate of profits. The poor laws, the Bank restriction and the corn laws had the effect of inhibiting the profitability of British manufacturers and were, to that extent, irrational. What was needed, according to Ricardo, was a rational public policy, i.e., a public policy which reflected the imperative of capital accumulation.

That providing a framework of law conductive to the accumulation of capital was rational is evident from Ricardo's Weltanschauung. Man was seen as being in a perpetual contest against poverty. The phenomenon of diminishing returns—tantamount in Ricardo's writings to a law of nature—meant, at some unspecified future date, economic stagnation and universal poverty. And such public policies as the poor laws, the Bank restriction, and the corn laws only hastened that eventuality. By fostering the process of capital accumulation through a rational orientation to public policy, however, Britain could indefinitely postpone that future time when the returns on investments would sink to such a level that the incentives to accumulate would cease to exist.

But to achieve a rational orientation to the problem of maintaining high rates of profit, while it necessitated a change in the substance of public policy, required, as a logically prior condition, a change in the structure of political authority. The
substance of public policy, as Ricardo quite correctly saw, could not be divorced from the underlying representational basis of Parliament. If public policy was to reflect rationally the needs of the industrial sector of the economy, the representational basis of Parliament would have to be changed to reflect the interests of the industrial bourgeoisie. The focus of Ricardo's writings, which we have characterized as emphasizing the problem of rationality, thus also speaks to the problem of authority. For Ricardo, the exercise of political authority ought to rest on rational foundations. Only in this way could the material progress of mankind be assured. And if rationality was coterminous with efficiency and the institution of the "free" market, the rational foundation for the exercise of political authority was coterminous with the interests of a specific class in the community—the capitalist class.

From Utopian Mentality to Ideology

"A state of mind is utopian when it is incongruous with the state of reality within which it occurs."\(^5\)

No body of thought fits Karl Mannheim's definition of utopia better than the rationale for _laissez-faire_ found in the writings of David Ricardo. Thought may be classified as utopian when it fulfills two basic conditions. First, for Mannheim, utopian thought is "situationally transcendent." As implied in the above quote, "utopias . . . transcend the social situation, for they . . . orient conduct towards elements which the situation, in so far as it is realized at the time, does not contain."\(^6\)
Utopia is thus a relative term, "meaning thereby . . . [an idea] which seems to be unrealizable only from the point of view of a given social order which is already in existence." Secondly, for Mannheim, utopian thought is characterized by its revolutionary potential. "... Only those orientations transcending reality will be referred to . . . as utopian which, when they pass over into conduct, tend to shatter, either partially or wholly, the order of things prevailing at the time."

Of the transcendent quality of the Ricardian doctrine of *laissez-faire* there can be but little doubt. Rationality in the corpus of Ricardo's writings, as we have seen, may be envisioned under the general rubric of "economic efficiency"; that for men to achieve a rational orientation to human affairs would require both the recognition of the materialistic foundations of the human experience, and the further recognition of the market mechanism as the instrument of economic decision-making which alone could assure efficiency in economic life. The transcendent quality of this doctrine of rationality may be thought of, in Polanyi's words, as the "commodity fiction" of land, labour, and capital; an appeal for a reorientation of social and economic life, from a society based on aristocratic status and privilege, to a society based on the model of the market, a model in which human relationships assumed a commodity form:

Production is interaction of man and nature; if this process is to be organized through a self-regulating mechanism of barter and exchange, then man and nature must be brought into its orbit; they must be subject to supply and demand, that is, be dealt with as commodities, as goods produced for sale.
Man under the name of labour, nature under the name of land, were made available for sale; the use of labour power could be universally bought and sold at the price called wages, and the use of land could be negotiated for a price called rent. There was a market in labour as well as in land, and supply and demand in either was regulated by the height of wages and rents, respectively; the fiction that labour and land were produced for sale was consistently upheld. Capital invested in the various combinations of labour and land could thus flow from one branch of production to another, as was required for an automatic leveling of earnings in the various branches.  

The doctrinal rationale of laissez-faire was an appeal, in short, for a new understanding of the rational basis of civil society. And implicit in the appeal of its alternative understanding of rationality was a new vision of power relationships in society. It was this vision of a reorientation of power relationships, implicit in Ricardo's understanding of rationality, that gave to the doctrine of laissez-faire its revolutionary potential. As Mannheim has pointed out, "one can orient himself to objects that are alien to reality and which transcend actual existence—and nevertheless still be effective in the realization and maintenance of the existing order of things." But this is clearly not the case with the liberal bourgeois concept of laissez-faire. Because the liberal bourgeois redefinition of the rational basis of social order contained within it a new vision of power relationships all that was required was a social group who would embody "these wish images into their actual conduct" and attempt to effectuate change. Such a group was the nascent industrial bourgeoisie. It is in this sense, then, that we speak of the doctrine of laissez-faire as utopian.
Quoting Lamartine, Mannheim remarks, "'Les utopies ne sont souvent que des vérités prematurées.'" 12

If, therefore, the basic criterion of utopian thought is the transformation of reality in conformance with a given wish image the liberal bourgeois doctrine of laissez-faire, found in the writings of David Ricardo, was such an idea. Mannheim has remarked in this respect:

The utopia of the ascendant bourgeoisie was the idea of "freedom." It was in part a real utopia, i.e., it contained elements oriented towards the realization of a new social order which were instrumental in disintegrating the previously existing order and which, after their realization, did in part become translated into reality. Freedom in the sense of bursting asunder the bonds of the static, guild, and caste order, in the sense of freedom of thought and opinion, in the sense of political freedom and freedom of the unhampered development of the personality became to a large extent, or at least to a greater extent than in the preceding status-bound, feudal society, a realizable possibility . . . ." 13

As we have seen, by 1800, England was still a predominantly agricultural nation whose public policy was the by-product of the interests of the landed aristocracy. The rationale of laissez-faire as a mechanism for economic decision-making had yet to be accepted as orthodoxy. "Only by the 1820's did it stand for the three classical tenents: that labour should find its price on the market, that the creation of money should be subject ot an automatic mechanism; that goods should be free to flow from country to country without hinderance . . . ." 14 And if it was not until the 1820's that the doctrine of laissez-faire emerged as we know it today it would be mid-century before laissez-faire was fully established as public policy
In Britain.

In the thirty years between 1820 and 1850, however, a succession of Parliamentary acts transformed the doctrine of laissez-faire from a utopian ideal into established practice. The repeal of the Bank restriction of 1797 in 1819, the Parliamentary Reform Bill of 1832, the Poor Law Amendment Act of 1834, and the Anti-Corn Law Bill of 1846, among others, established the catechism of laissez-faire as official policy. And as a direct by-product of this change in official policy was the evolution in the fundamental characteristics of British society. The acceptance of the "commodity fiction" of land, labour, and capital, in practice, transformed Britain into an industrialized nation. Land was for the first time fully commercialized. "The . . . [result] was the elimination of all claims on the part of neighborhood or kinship organizations, especially those of virile aristocratic stock, as well as of the church—claims which exempted land from commerce or mortgage."¹⁵ Labour, for the first time, was separated from the land. "In practice this meant that the noncontractual organizations of kinship, neighborhood, profession, and creed were . . . liquidated since they claimed the allegiance of the individual and thus restrained his freedom."¹⁶ The employer's demand for the flexibility of wages and labour mobility had become a reality. So, to a lesser extent, had a monetary system based on the international gold standard become a reality. The industrial bourgeoisie, in short, had acquired vast power in British society.
A result of this change in the "historical experience" of Britain, as Mannheim would term it, is our own orientation to the doctrine of laissez-faire. If, in the first quarter of the Nineteenth Century, the idea of laissez-faire was utopian, in that it appealed to a transcendent rationality as justification for a proscribed change in public policy, by the latter twenty-five years of that same century, the idea had been largely translated into practice and the doctrine now served as an official ideology. What had changed in the interim was not the transcendent quality of the doctrine, but its historical function. Despite the fact that the axioms of laissez-faire had been largely translated into practice, the doctrine was still, from Mannheim's perspective, a transcendent one; that is, it tended to obscure reality:

The concept "ideology" reflects . . . one discovery which emerged from political conflict, namely, that ruling groups can in their thinking become so intensively interest-bound to a situation that they are simply no longer able to see certain facts which would undermine their sense of domination. There is implicit in the word 'ideology' the insight that in certain situations the collective unconscious of certain groups obscures the real condition of society both to itself and to others and thereby stabilizes it.17

In Mannheim's words, "the utopias of ascendant classes are often, to a large extent, permeated with ideological elements,"18 distorted conceptions of social order and rectitude. Such is the case, historically, with the doctrine of free trade. "It shies away from dealing historically, concretely, and individually with the problems of society for fear that its own inner antagonisms, for instance the antagonisms of capitalism itself, might become visible."19
And the nature of this obfuscation of reality is nowhere more apparent than in the very distortion of the theory of free trade which had emanated from classical economics. Among the now more obvious distortions of the conceptual apparatus of the classical laissez-faire doctrine were (1) the cognitive separation of economic life from political life; (2) the disdain of governmental regulation, preferring instead to speak of the efficacy of the "natural forces" of the market; and (3) the belief that an "objective" science of human behavior was possible. While it might be contended that these basic orientations were latent tendencies in the doctrine of the classical economists, they were not, as we have seen in Chapter I, conscious attributes of their system of thought. In terms of our discussion of David Ricardo, only his claim that economics could be studied scientifically is consistent with the above claims advanced by the advocates of free trade in the closing years of the Nineteenth Century.

In the latter part of the Nineteenth Century, the rigid analytical separation of economics from politics led to the naive belief that, in economic affairs, the actions of men were attributable only to "natural forces," forces which were beyond the control of ordinary human beings. This rigid distinction was not, as we have seen, an attribute of classical economics or of the Utilitarian Tradition more broadly conceived. David Ricardo and the classical economists, to the contrary, appreciated the intimate relationship between the structure of the socio-economic system and the structure
of the framework providing agency of government. To the extent that
the classical economists spoke of a harmony of interests in civil
society it was with the recognition that the order of which they
spoke had to be created out of the conflicts of interest which
persisted in society. The concomitant tendency in the latter years
of the century to speak of the felicity of the market, the disdain
of governmental regulation, was all the more ironic in that the
classical doctrine of laissez-faire was, itself, a doctrine which
required massive governmental regulation to effectuate it. All
of this culminated in the effort to establish an "objective"
understanding of human nature. If it could be assumed that the
actions of men were merely the by-product of nature surviving in
society, it was conceived that the effort to describe human
behavior could be rendered objectifiable. If human behavior was
assumed to be devoid of volition, if in their collective action men
responded only to nature's forces, values, opinions, and prejudice
could be set aside in an analysis of human nature.

Thus the implicit faith in the rationality of the market
mechanism as a process of decision-making—exhibited by the classical
economists—was conjoined, in later years, with a conceptual dis-
tortion of the very nature of that process itself. If the efficacy
of the market mechanism as viable decision-making process had been
exaggerated by the classical economists, later advocates of the same
principle, eschewing the political, attributed the felicitious
qualities of the market to a benign nature. By failing to under-
stand the volitional element intrinsic to all human institutional arrangements, the advocates of laissez-faire masked the true nature of the human catastrophe of capitalism behind the facade of inevitability. Neither the massive poverty and degradation of the working man nor the destruction of the land and the rivers were attributed to the inner workings of a market society. They were, rather, viewed as the inevitable concomitants of human progress. Neither were the all too apparent financial crises of the late Nineteenth Century correctly perceived—as artifacts of an international system free of purposeful regulation. The doctrine of laissez-faire during this period of financial and political instability fulfilled the function of an ideology. It was the intellectual armament against those who sought to protect society against the harmful consequences of a market economy through the agency of the political.

Perhaps characteristically, the ideologists of laissez-faire denied the extent of the social catastrophe. And, to the extent that it was admitted, the solution that was proffered was itself the cause. We may conclude with the observations of Polanyi:

... The very term "Industrial Revolution" was... frowned upon as conveying an exaggerated idea of what was essentially a slow process of change. No more had happened... than that a gradual unfolding of the forces of technological progress transformed the lives of the people; undoubtedly, many suffered in the course of the change but on the whole the story was one of continuous improvement. This happy outcome was the result of the almost unconscious working of economic forces which did their beneficial work in spite of the interference of impatient parties who exaggerated the unavoidable difficulties of the time. The inference was no less than a denial that danger had threatened society from the new economy. ... The... fallacy in regard to the nature of the social and cultural catastrophe thus bolstered
the legend that all the ills of the time had been caused by our lapse from economic liberalism. 20

Technological Rationality and the Crisis of Public Authority

From the foregoing discussion we may draw two general conclusions. First, in terms of the major approaches manifest in the tradition of political philosophy, Ricardo evinced the concerns of one interested primarily in the problem of rationality: "[What is] ... a good way to make decisions? to calculate and to weigh alternative courses of action? to achieve rationality in some sense? to avoid foolish decisions?" 21 But this preoccupation with the question of rationality, as we have seen, did not preclude, in addition, a conception of the conditions under which the exercise of political authority could be rendered justifiable. It may be said that, for Ricardo, a claim to the exercise of political authority is justified if the exercise of that authority conforms to rational standards. That is, if, from the structure of the authoritative decision-making apparatus it is reasonable to assume that public policy will reflect, rationally, the real needs of the community, a claim to the exercise of political authority may be deemed justifiable.

And herein lies the source of the second general conclusion that may be drawn from the foregoing discussion. Ricardo's advocacy of the "free" market as a rational decision-making unit was based on a particular view of reality; on a particular conception of the
"real" needs of the community. It was to this vision of the "real" needs of the community that the "free" market was apropos and to which the structure of political authority would have to conform. This appeal to the "free" market and to the underlying conception of reality on which it was based was, furthermore, as we have noted, utopian. It was utopian in that, initially, the rationality implicit in the doctrine of the "free" market was conditioned on the existence of a heretofore non-existent state of affairs; in Mannheim's words, to an as yet unrealized "historical experience."

The rationality implicit in the doctrine was, in short, an appeal for the transformation of the existing characteristics of British society. And to the measurable extent that the advocates of laissez-faire, through a reorientation of public policy, were successful in restructuring British society, the doctrine of the "free" market was, in fact, a real utopia; a doctrine which became, later, the basis for the description of a new "historical experience."

But if, as a doctrine, its historical function had changed its particularistic conception of reality had not. At best, in the latter years of the Nineteenth Century, the doctrine served as a partial explanation of reality; at worst, the limited understanding of reality offered by the doctrine led to a paralysis in dealing with the problems of the day. In short, the doctrine of laissez-faire had assumed the characteristics of an ideology.

From this perspective, the truly partisan nature of Ricardo's understanding of rationality can be understood. The appeal to the
rationality of the market mechanism, and the appeal that the structure of political authority conform to the requisites of that system, was an appeal for the creation of a market society; a society, in short, whose structure reflected the prerequisites of the free market as a method of economic decision-making. But, as an appeal, it was nothing less than a movement for the redistribution of power relationships in British society; a redistribution of power that would reflect the needs of a particular class in the community, the nascent industrial bourgeoisie. And if the raison d'être of this class of capitalists may be fairly represented as its ability, as a class, to accumulate wealth, the needs of this class become indistinguishable from the power exercised by it. If the incentive to accumulate, which alone could sustain the existence of this class, required the existence of a market society, it was only through the very process of accumulation that a market society could be created. The control exerted by the proprietors of wealth over the price mechanism, in an unfettered market economy, is a control over the means of subsistence. Once freed of statutes which encumbered the operation of the price mechanism, the proprietors of capital possessed the requisite force, through their collective control over the distribution of wealth, to restructure British society.

The theoretical foundation of Ricardo's faith in the implicit rationality of the market mechanism reflected this belief in the imperative of accumulation; in other words, in the exercise of power by the capitalist class. As we have seen, while the general outline
of Ricardo's belief in the efficacy of laissez-faire, as public policy, is apparent in his views on Parliamentary reform and the poor laws, it was his opposition to the Bank restriction and the corn laws that led him to develop a theoretical basis for this understanding.

The outline of what was later to become the labour theory of value was already apparent in his theory of money; that, in essence, the long run value of money, as a commodity, was dependent on the cost of production of the standard, the precious metals. It was this quality alone that would insure everywhere, in the long-run, the uniform value of the medium of exchange. If token money was freely exchangeable with the standard only short-run fluctuations would interrupt this international equilibrium in the value of money. And this uniformity in the purchasing power of money was, as Ricardo quite correctly perceived, a necessary attribute of the power exercised by the capitalist class. The ability to create and sustain a market society, domestic or international, rested on the collective influence of the capitalist class over the system of prices for the factors of production—land, labour, and capital. Only through this control of the pricing mechanism could the most efficient allocation of resources be effectuated; in short, could the incentive to accumulate be sustained at an optimum level. Statutes such as the Bank restriction, by artificially decreasing the purchasing power of the circulating medium in Britain, thus amounted to a breach in the control of the capitalist class over the system of prices and thus also over the process of accumulation,
the process through which the capitalist could exert and maintain power.

Among the more obvious injurious consequences of this decline in the purchasing power of the circulating medium was an increase in the cost to British manufacturers of foreign commodities. The importance of this consequence, from Ricardo's perspective, cannot be overstated. For Ricardo, as we may recall, the pre-eminent obstacle to economic progress was the phenomenon of diminishing returns; i.e., the falling rates of profit in the commercial sector. Because labour was assumed to be the primary cost associated with production anything which served to increase the cost of labour served to reduce the level of profits. And because the wages of labour were assumed to be constantly increasing as a result of the increase in the price of necessaries on which the labourer depended for his subsistence, the tendency of profits, in the long-run, was to fall. This tendency, which Ricardo viewed as a universal phenomenon, was aggravated in Britain due to the shortage of fertile land. All that the British manufacturer could hope for was an inexpensive foreign source of raw materials. But this desire was effectively checked by the Bank restriction and the corn laws. Both of these public policies had the effect of increasing the cost of maintaining the subsistence level of the labourer, thereby reducing the rate of profits in Britain. Both policies, in other words, encumbered the process of accumulation and were, to that extent, inimical to progress.
Thus the theory of the free market, advanced by Ricardo in response to the Bank restriction and the corn laws, may be viewed as his most general theoretical effort to establish the rationality of the market mechanism; to establish, in other words, the rationality implicit in a social organization which reflected the market model, the rational imperatives of the capitalist class. And in this effort to establish the rationality of a market society, the ends of life become indistinguishable from the means of attaining them. If the process of accumulation was perceived to be contingent on the existence of a market society, the existence of a market society was contingent on the process of accumulation as the mode of creating and sustaining it. And the agent of this accumulation, and thus also of the social relationships characteristic of a market society, was perceived to be the class of capitalists, the industrial bourgeoisie. The justifiable basis for the exercise of public authority therefore becomes the exercise of power in conformity with the implicit rationality of a market society. And if the raison d'être of a market society is accumulation, the exercise of authority must fall to that class of individuals in whose interest it is to accumulate.

It is perhaps in this circular equation of means and ends that lies the true meaning of the statement—found first in the writings of Marx and only later in the writings of others interested in the concept of ideology—that the truth value of concepts is given by the existing distribution of power in society; that the
social values of a given period in history are the values of the dominant class; are, therefore, the rationalizations of the power of that class. What is true and false is given by the existing "order of things."

This phenomenon is perhaps best described by Herbert Marcuse:

In other words, the criteria for judging a given state of affairs are those offered by (or, since they are those of a well-functioning and firmly established social system, imposed by) the given state of affairs. The analysis is "locked"; the range of judgment is confined within a context of facts which excludes judging the context in which the facts are made, man-made, and in which their meaning, function and development are determined.22

It was in this sense that we have described the ideas of the ascendent industrial bourgeoisie as utopian. The social values implicit within their framework of ideas, within their conception of rationality, clashed with the existing structure and, therefore, values, of early Nineteenth Century British society. To the extent that this conception of rationality did not reflect the existing distribution of power, it was labeled as untrue, that is, utopian. It was only with the eventual success of the movement which transformed Britain into a market society that the doctrine of rationality implicit in the theory of the free market assumed its function as arbiter of truth. The doctrine became the basis for the justification as well for the description of a new social structure in Nineteenth Century British society; a market society whose dominant social and political values reflected the economic imperatives of the capitalist class.
As ideology, the doctrine of free trade, as found within the writings of David Ricardo, served to justify and explain the redistribution of power in British society. It may be described as ideology to the extent that it served to justify an unequal distribution of power. It may likewise be described as ideology in the sense that its conception of reality was distorted. The needs and aspirations of the industrial bourgeoisie served, as values, the function of justifying the unequal distribution of power through the facile assumption that these values expressed the universal needs and aspirations of all men. It served, in short, to justify the domination of man by man.²³

But if the doctrine of free trade shared the historical characteristics of an ideology, the ideological content of the doctrine assumed a new form. From Polanyi's perspective, the implicit rationality of the market mechanism proclaimed the necessity of a social structure that, for the first time, reflected the technical imperatives of a system of production. If economic productivity had heretofore been a facet of a given social structure, the social structure had now become a facet of the organization of economic activities. In Herbert Marcuse's words, the rationality of the market was a nascent form of "technological rationality:"

In the social reality, despite all change, the domination of man by man is still the historical continuum that links pre-technological and technological Reason. However, the society which projects and undertakes the Technological transformation of nature alters the base of domination by gradually replacing personal dependence (of a slave on the
master, the serf on the lord of the manor, the lord on the
donor of the fief, etc.) with dependence on the "objective
order of things" (on economic laws, the market, etc.).
To be sure, the "objective order of things" is itself the
result of domination, but it is nevertheless true that
[such] domination . . . generates a higher rationality—
that of a society which sustains its hierarchic structure
[through] . . . exploiting ever more efficiently the natural
and mental resources, and distributing the benefits of this
exploitation on an ever larger scale. The limits of this
rationality . . . appear in the progressive enslavement of
man by a productive apparatus which perpetuates the struggle
for existence and extends it to a total international struggle
which ruins the lives of those who build and use this apparatus."

From this perspective we may conclude that the doctrine of
free trade and the theoretical apparatus on which it was erected,
spawned a new crisis in public authority. It raised in a new form
the historical crisis of public authority—the illegitimate and
thus tenuous operative bases of the exercise of political power.
In short, what the doctrine offered, by its very ideological nature,
was only a new ethos of domination. To the extent that the doctrine
embraced the idea of freedom, of "natural liberty," it did serve
as a legitimate justification for uprooting the remnants of aristoc-
ратic privilege. But the very source of the doctrine's pretentions
to moral legitimacy, its critical function, only prepared the way
for a new rationale of domination. If "moral individualism," to use
the words of John Chapman, destroyed the functional ethics of
classical and medieval thinking, the concept of "moral individualism",
from a Marxist perspective, only expressed a new "rational pattern of
differentiated and hierarchically organized roles"; the hierarchic
differentiation of roles characteristic of market society. Far from
the ideal of Human Freedom, the crisis which the doctrine of the
free market, of "natural liberty," engendered was only a new manifestation of the historical crisis of public authority—the attempt to justify the perpetuation of the unequal distribution of power. Chapman's characterization of the Marxist critique—by way of a conclusion—is appropos. "The whole doctrine of natural rights [was] . . . an assertion of class interest, masquerading in terms of universality." 26

Conclusion

What we have sought to establish, by way of a general conclusion, is the fundamental interrelatedness, in the philosophy of David Ricardo, of thought and existence; and that the key to the nature of this interrelatedness is the historical function performed, in Nineteenth Century British society, by the framework of ideas advanced by Ricardo. From this perspective, it is possible to see both the limited "historical experience" that formed the genesis of his ideas and the impact of this narrow conception of reality on the structure of the "historical experience."

If, on the one hand, we have described the theory of the free market as utopian, it was in the sense that, as a framework of ideas, its conception of reality was circumscribed by the needs and aspirations, in short, the values, of the ascendent industrial bourgeoisie. The restricted conception of reality conveyed by the classical doctrine of free trade can be established by the very fact that, as a framework of ideas, the doctrine was in conflict with the established values of British society, themselves the by-product
of a particular conception of the real world. The manifestation of the doctrine as a utopian ideal is given by the fact that, in the early years of the Nineteenth Century, far from a description of historical reality, the conception of reality implicit within the framework of ideas was what was to be attained.

If, on the other hand, we have described the theory of the free market as ideology, it was in the sense that the impact of the doctrine served to restructure social relationships in British society to reflect the values of the industrial bourgeoisie. What transpired during the course of the Nineteenth Century was the gradual evolution in the "historical experience" of a nation, the genesis of which was the narrow Weltanschauung of the emergent capitalist class. The manifestation of the doctrine as ideology is given by the fact that historical experience had changed through the acquisition of political power by the emergent bourgeoisie class. As ideology, the appeal of the conception of reality preferred by the doctrine of free trade became co-extensive with the acquisition of power by the capitalist class.

By understanding the historical function of the doctrines of classical economics and of the doctrines of David Ricardo, in particular, it is possible to see the reciprocal interrelationship of "historical experience" and ideas in Nineteenth Century British society. We have attempted to show this relationship by understanding Ricardo, as an individual who is representative of the general orientation of classical economics, as a policy scientist; an
individual, in other words, who developed a theoretical perspective, a framework of ideas, in response to the perceived needs of national policy. The focus on policy helps us to perceive the sociological roots of the concepts advanced by Ricardo as well as to perceive the impact of these concepts, embodied in national policy, on the evolving structure of British society. That these concepts, the reflection of the narrow class interests of the industrial bourgeoisie, became the rationale for policy in the Nineteenth Century had a profound effect on the structure and the dominant values of British society.

The significance of David Ricardo, as a representative of the tradition of classical economics, thus goes far beyond the significance of his contributions to the body of technical literature that has emerged as the discipline of economics. We may agree with Cannan in his criticism of those who, like McCulloch, have interpreted Ricardo's work as "pure science," as the formulation of abstract principles without regard to their application. Quite the reverse appears to be the case. The concepts which he set forth—the labour theory of value, the concept of diminishing returns, the doctrine of comparative advantage—were developed in response to immensely practical problems. But to Cannan's further claim that this policy orientation renders the principles developed by Ricardo of no significance beyond the immediate problems that he sought to rectify, we may object. The principles developed by Ricardo, in technical and abstract language, constituted the beginning of
a rudimentary theory of bourgeois society. That the language was technical and abstract, that the principles set forth were developed in response to practical questions of public policy, cannot blind us to the fact that Ricardo's writings were an anticipation of the emergence of a new social structure—market society. The technical requisites of economic productivity became the basis of a new social order; a social order which reflected the imperative of accumulation, in which the distribution of power reflected the raison d'etre of the capitalist class.

No understanding of liberalism is complete without an appreciation of the impact of the Industrial Revolution on Nineteenth Century European society where, for the first time, the industrial classes assumed power. New social relationships emerged as a consequence of this event and new forms of understanding were required to comprehend its significance. These new forms of understanding—primarily in the form of the principles elucidated by classical economics—sought to explain the characteristics of a social order free from the aristocratic relationships of the past; a society whose very values, political, economic, and social, were the reflection of the implicit rationale of the market mechanism, the unique contribution of the industrial classes to modern society. Political rationality increasingly has come to be understood as technological rationality—the economically "efficient" distribution of political power. "It is now the political system which is justified in terms of the legitimate relations of production . . . .
The institutional framework of society is only mediately political and immediately economic."27
FOOTNOTES


2 Ibid., p. 61.

3 Ibid., p. 64.

4 Ibid., p. 66.


6 Ibid., p. 195.

7 Ibid., p. 196.

8 Ibid., p. 192.


11 Ibid., p. 193.

12 "Utopias are often only premature truths," Ibid., p. 203.

13 Ibid.


15 Ibid., p. 179.

16 Ibid., p. 163.

17 Karl Mannheim, Ideology and Utopia: An Introduction to the Sociology of Knowledge, p. 140.
18 Ibid., p. 203.

19 Ibid., p. 278.


21 Supra., p. 270.


23 If we suppose that the division of society into socio-economic classes derives from the differential distribution among social groups of the relevant means of production, and that this distribution itself is based on the institutionalization of relations of social force, then we may assume that in all civilizations this institutional framework has been identical with the system of political domination: Traditional authority was political authority. Only with the emergence of the capitalist mode of production can the legitimation of the institutional framework be linked immediately with the system of social labour. Only then can the property order change from a political relation to a production relation, because it legitimates itself through the rationality of the market, the ideology of exchange society . . . ." Jurgen Habermas, Toward A Rational Society: Student Protest, Science and Politics (Boston: Beacon Press, 1970), trans. by Jeremy J. Shapiro, p. 97.


26 Ibid., p. 155.

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