economy and Classical sociology were most closely associated was, of course, Adam Smith. Smith, like Marx, was a whole man, who tried to combine a theory of history, a theory of ethics, and a theory of political economy into one great general theoretical system. After Smith, Classical sociology was developed by Millar, who was relatively weak in the field of political economy, and Classical political economy was developed by Ricardo, who was relatively weak in the field of sociology. After Ricardo’s death, a few rather hesitant attempts to reunite political economy and sociology in a new synthesis were made by radical writers like Bray, Proudhon and Rodbertus. But it was not until 1844–5, when Marx and Engels sketched the main outlines of their general theory, that the two disciplines were really united again. And Marx’s study of Classical political economy in 1844 was, I think, the decisive factor which led him forward from Feuerbachian materialism to the materialist conception of history. But however this may be, there is no doubt that Marx can properly be said to be the heir of the basic ideas of the Scottish Historical School. Marx saw the vital connections which had been forgotten, and restored the unity which had been destroyed.

THE DECLINE OF RICARDIAN ECONOMICS IN ENGLAND

I

This essay is concerned with one of the really crucial questions in the history of economic thought: what happened to “Ricardian economics” after the death of Ricardo? Different historians, approaching the question for different reasons and with different concepts of “Ricardian economics” in their minds, have given a wide variety of different answers to it. It will be helpful, perhaps, to begin by reviewing a few of these answers.

One of the earliest interpretations of the period was that of Marx, whose knowledge of the relevant literature was more profound and extensive than that of any of his contemporaries. Writing in 1873, in an “Afterword” to the second German edition of Capital, Marx spoke of the period from 1820 to 1830 as having been notable in England for scientific activity in the domain of Political Economy. It was the time as well of the vulgarizing and extending of Ricardo’s theory, as of the contest of that theory with the old school. Splendid tournaments were held ... The unprejudiced character of this polemic – although the theory of Ricardo already serves, in exceptional cases, as a weapon of attack upon bourgeois economy – is explained by the circumstances of the time. On the one hand, modern industry itself was only just emerging from the age of childhood ... On the other hand, the class-struggle between capital and labour is forced into the background, politically by the discord between the governments and the feudal aristocracy gathered around the Holy Alliance on the one hand, and the popular masses, led by the bourgeois on the other; economically by the quarrel between industrial capital and aristocratic landed property – a quarrel that ... in England broke out openly after the Corn Laws. The literature of Political Economy in England at this time calls to mind the stormy forward movement in France after Dr Quesnay’s death, but only as a Saint Martin’s summer reminds us of spring. With the year 1830 came the decisive crisis.

In France and in England the bourgeoisie had conquered political power. Thenceforth, the class-struggle, practically as well as theoretically, took on

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1 This essay has the same name and general theme as an article in Economica, February 1950, but a great deal of it has been more or less completely rewritten.
more and more outspoken and threatening forms. It sounded the knell of scientific bourgeois economy. It was thenceforth no longer a question, whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In place of disinterested inquirers, there were hired prize-fighters; in place of genuine scientific research, the bad conscience and the evil intent of apologetic.

This judgement was of course based on the assumption that “political Economy can remain a science only so long as the class-struggle is latent or manifests itself only in isolated and sporadic phenomena” an assumption the validity of which is questionable, at any rate so far as our own times are concerned. But leaving this aside for the moment, let us note only that Marx saw the year 1830 as marking the end of “Ricardian” economics — and, indeed, not only of “Ricardian” but also of “Classical” and even of “scientific” economics. From then on, the scientists were obliged to give way to the hired prize-fighters.

To the economists who ushered in the “marginal revolution” of the 1870’s and the generation of historians who followed in their wake, Marx’s view could hardly have been expected to appeal. Quite apart from its political implications, it suggested that the “great divide” in the history of economic thought had occurred round about 1830. To the marginal revolutionaries, naturally enough, this seemed half a century too early: the “great divide” was surely that which they themselves were creating. And the dead hand of authority against which they were revolting was not merely that of John Stuart Mill, but also that of his acknowledged master, David Ricardo. Jevons believed that his new theory would “overthrow many of the principal doctrines of the Ricardo-Mill Economics”, and spoke again and again of “the mazy and preposterous assumptions of the Ricardian School”, the exclusive importance attributed in England to the Ricardian School of Economists, etc. Cannan, too, in the great iconoclastic survey of production and distribution theory which he wrote in order to help clear the way for the new doctrines, frequently spoke in contemptuous terms of the “Ricardian school”, and argued that from the scientific point of view the theories of production and distribution arrived at in the first half of the nineteenth century must be “visited with almost unqualified condemnation”.

This view was not substantially altered by the discovery that a number of pioneers of the “modern” approach had lived and worked during the period of the allegedly overwhelming predominance of “Ricardian” economics. To Jevons, men like Gossen and Cournot were merely the exceptions which proved the rule, the stars whose brightness accentuated the paleness of the others. And when it was found that men like these were much more numerous than Jevons had suspected, it was still argued that their work had been little more than a flash in the pan. Even Seligman, who did more than anyone else to bring this work to the attention of economists, believed that it had very little influence upon the intellectual climate of the time; and Professor Marian Bowley, who in 1937 called so emphatically in her book on Senior for a revision of the traditional interpretation of the period, still maintained that an orthodox Ricardian school flourished in England during the whole period from the death of Ricardo to the time of Mill’s recantation of the wages-fund doctrine.

Keynes’s General Theory, with its suggestive redefinition of “Classical” economics and its remarks about the completeness of the Ricardian victory, opened the way for yet another interpretation of the post-Ricardian period. “The idea that we can safely neglect the aggregate demand function”, wrote Keynes, “is fundamental to the Ricardian economics, which underlie what we have been taught for more than a century ... Malthus, indeed, had vehemently opposed Ricardo’s doctrine that it was impossible for effective demand to be deficient; but vainly ... Ricardo conquered England as completely as the Holy Inquisition conquered Spain.” This virtual identification by Keynes of “Ricardian economics” with what is now often called “Say’s Law” was no doubt a useful and striking pedagogical device. It was designed to emphasize one of the really significant features of Keynes’s own contribution, and it succeeded admirably in its purpose. But Keynes’s “solecism” has also been used for another purpose, which Keynes himself presumably never intended. Professor Checkland, in an interesting article published in 1949, assumed without question that “Say’s Law” was indeed “the basic premise of the New School”, and proceeded to discuss the propagation and ultimate victory of the doctrines of the school in terms of the tactical and strategic advantages enjoyed by those who believed in the truth of “Say’s Law”. If this view were correct, it would mean that the “great divide” between “Ricardian” and

9 Nassau Senior and Classical Economics (London, 1937), passim.
11 Ibid., p. 32. Cf. Essays in Biography, pp. 149-41.
13 Ibid., p. 40.
"modern" economics occurred not in 1830, and not in the 1870's, but in 1936.

With Schumpeter's *History of Economic Analysis*, the wheel in a sense turns full circle. So far as the facts are concerned, Schumpeter agrees substantially with Marx. Speaking of James Mill, McCulloch and De Quincey — "the only unconditional adherents and militant supporters of Ricardo's teaching who gained sufficient reputation for their names to survive" — he writes:

None of the three added anything substantial, and the touches they did add — James Mill and McCulloch especially — were mostly of doubtful value. They did not even succeed in summing up Ricardo correctly or in conveying an idea of the wealth of suggestions to be found in the latter's *Principles*. What they did convey was a superficialized message that wilted in their hands and became stale and unproductive practically at once... It was not their fault that Ricardo's system failed from the first to gain the assent of a majority of English economists... This was owing to its inherent weaknesses. Nor was it their fault that the system was not made for a long career. But it was their fault that defeat came so quickly. Ricardo died in 1823. In 1825, Bailey launched his attack that should have been decisive on the merits of the case. Actually it was not, for schools are not destroyed so easily. But the decay of the Ricardian school must have become patent shortly after, for in a pamphlet published in 1831 we read that "there are some Ricardians still remaining". In any case, it is clear that Ricardianism was then no longer a living force.\(^{14}\)

Schumpeter goes on to try to account for "the prevailing impression to the contrary" — a problem to which I shall return at the end of this essay. In the meantime, let us note that there is one very important respect in which Schumpeter's interpretation differs from that of Marx. Both historians, it is true, date the defeat of the "Ricardian" school at 1830 or thereabouts, and both agree that the defeat was closely associated with a tendency to get away from "the class connotation of the categories of economic types".\(^{15}\) But whereas Schumpeter strongly approves of this tendency, Marx just as strongly condemns it as "one of the symptoms of the degeneration of bourgeois economics".\(^{16}\) It is also perhaps worth noting that, whereas Schumpeter blames the members of the school for the fact that its defeat came so quickly, Professor Checkland gives these same members the credit for the fact that its victory was so long-lasting.

Where then do we stand? At first sight it might seem that in the presence of guide-lines which are so constantly shifting, and judgements which are so obviously temporal and subjective, our only possible refuge

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\(^{15}\) Ibid., p. 552. Cf. below, pp. 205 ff.

\(^{16}\) Ibid., p. 553. Cf. p. 559, footnote 12.

is in some kind of arid combination of relativism and semanticism. Each generation must make its own history of economic thought; periodization can never be an exact science; each of the answers which has been given to our initial question is as right — or as wrong — as the others. I would be the last to deny that up to a point these things are true: one simply has to learn to live with them, and do the best one can without the help of absolute standards.\(^{17}\)

In relation to the question at issue, however, it seems to me that there are at any rate two things which may usefully be done. First, we may try to define the role which "Say's Law" played in Ricardo's theory, in an endeavour to find out whether we can in fact say anything really useful about the development of "Ricardian" economics after 1823 merely by accounting for the survival of this one particular doctrine. Second, we may try to define those parts of Ricardo's theory which did in fact fall into abeyance after 1830, and make some estimate of the motives which led to their removal from the corpus of "Ricardian" doctrine.

II

Was "Say's Law" actually the "basic premise" of Ricardian economics? To John Stuart Mill, it is true, the idea that "a general over-supply, or excess of all commodities above the demand" is an impossibility\(^{18}\) did indeed appear to be "fundamental". "Any difference of opinion on it", he wrote, "involves radically different conceptions of Political Economy, especially in its practical aspect... Besides; a theory so essentially self-contradictory cannot intrude itself without carrying confusion into the very heart of the subject, and making it impossible even to conceive with any distinctness many of the more complicated economical workings of society."\(^{19}\) Mill's testimony, however, is hardly conclusive so far as Ricardo's own system is concerned: we know that Mill carried out something of a "transformation" of that system,\(^{20}\) and his ideas of what was or was not "fundamental" were not necessarily Ricardo's. To what extent, then, could "Say's Law" in one or other of its various possible interpretations be said to have been "fundamental" to Ricardo himself?

\(^{17}\) This is a problem which is treated in the essay on *Economics and Ideology*, which appears below. In the present context, I wish merely to add an acknowledgement of my debt to the dignified defence of "complete rational relativism" in Professor A. L. MacHale's "Economics — Science, Ideology, Philosophy?", *Scottish Journal of Political Economy*, June 1973.


\(^{19}\) Ibid., pp. 575–6.

Ricardo was probably acquainted with “Say’s Law”, at any rate in the form in which James Mill put it forward in his _Commerce Defended_, from the time of publication of the latter work. John Stuart Mill tells us that the merit of having placed the question of “general over-production” in its true light

belongs principally, on the Continent, to the judicious J. B. Say, and in this country to Mr Mill; who (besides the conclusive exposition which he gave of the subject in his Elements of Political Economy) had set forth the correct doctrine with great force and clearness in an early pamphlet, called forth by a temporary controversy, and entitled, “Commerce Defended”; the first of his writings which attained any celebrity, and which he prized more as having been his first introduction to the friendship of David Ricardo, the most valued and most intimate friendship of his life.21

But there is no evidence that the true significance of Mill’s doctrine and its relevance to his own theoretical system had been brought home to Ricardo before September 1814, when Malthus pointed it out to him – by which time, as we now know, he had already arrived at many of the basic propositions of the _Principles_. It is instructive, I think, to examine in some detail the state of the debate between Ricardo and Malthus at the beginning of 1814, and the way in which “Say’s Law” – or rather “Mr Mill’s theory”22 – was brought into the picture.

Early in 1814, Ricardo wrote some “very interesting papers on the profits of Capital”23 which have not survived. They no doubt embodied the views about the relation between the accumulation of capital and the rate of profit which Ricardo had arrived at in the course of a discussion with Malthus on the subject in the previous year24 and which he summarized as follows in a well-known letter to Trower:

> 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 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,25 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.

To this proposition, Ricardo goes on, “Mr Malthus does not agree”. He thinks

that the arena for the employment of Capital may increase, and consequently profits and interest may rise, altho’ there should be no new facilities, either by importation, or improved tillage, for the production of food; – that the profits of the farmer no more regulate the profits of other trades, than the profits of other trades regulate the profits of the farmer, and consequently if new markets are discovered, in which we can obtain a greater quantity of foreign commodities in exchange for our commodities, than before the discovery of such markets, profits will increase and interest will rise.

In such a state of things the rate of interest would rise as well as the profits of the farmer, he thinks even if more Capital were employed on the land. And Ricardo then sums up the basic issues as follows:

> Nothing, I say, can increase the profits permanently on trade, with the same or an increased Capital, but a really cheaper mode of obtaining food. A cheaper mode of obtaining food will undoubtedly increase profits says Mr Malthus but there are many other circumstances which may also increase profits with an increase of Capital. The discovery of a new market where there will be a great demand for our manufactures is one.26

It seems rather unlikely that Ricardo, in arriving at this position, was influenced in any really direct and fundamental way by “Say’s Law”, whether in Mill’s version or in Say’s. Within the next few months, however, the debate between Ricardo and Malthus took a turn which revealed clearly to both men the relevance of this theory to their respective positions. When Malthus expressed “doubts respecting the effects of restrictions on the importation of corn, in tending to lower the rate of interest”, Ricardo replied as follows:

> The rise of the price or rather the value of corn without any augmentation of capital must necessarily diminish the demand for other things... With the same Capital there would be less production, and less demand. Demand has no other limits but the want of power of paying for the commodities demanded. Every thing which tends to diminish production tends to diminish this power.27

In this last sentence one may, if one wishes, see a hint of “Say’s Law” in its simplest and most truistic sense – but surely nothing much more than this.

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22 An attempt is made below, pp. 60–1, to distinguish between the two.
25 A footnote by Ricardo at this point reads: “the following to be inserted: unless Capital be withdrawn from the land”.
On 6th July, Malthus replied that Ricardo was wrong in assuming that “in the case supposed, there would be less production and less demand with the same capital”. Surely, he argued, “there would be much less capital”. If so, “the question then seems to be whether production or demand would decrease the fastest? . . . I can by no means agree with you in thinking that every thing which diminishes produce, tends to diminish the power of paying for the commodities wanted, or as you intimate, to diminish the effective demand. If this were true, why do profits rise at the commencement of a war when stock is destroyed?”

Ricardo replied on 25th July as follows:

Effective demand, it appears to me, cannot augment or long continue stationary with a diminishing capital; and your question why if this were true profits rise at the commencement of a war? does not I think bear any connection with the argument, because profits will augment under a diminution of capital and produce, if demand tho’ diminished does not diminish so rapidly as Capital and produce.

Malthus seized on this passage in his next letter, maintaining that in all cases of diminution of capital “demand tho’ diminished does not diminish so rapidly as Capital and produce”, and that therefore Ricardo was wrong in arguing that “effective demand . . . cannot augment or long continue stationary with a diminishing capital”. “The whole amount of demand will from advanced prices diminish of course,” said Malthus, “but the proportion of demand to the supply which is always the main point in question, as determining prices and profits, may continue to increase as it does in all countries the capital of which is retrograde.”

The debate continued in much the same vein during the remainder of August. In a letter dated 30th August, Ricardo put the case of two imaginary countries, in one of which “from bad government and the consequent insecurity of property” or some such cause, profits and interest were permanently high, and in the other of which, where these causes did not operate, profits and interest were permanently low. “It would surely be incorrect,” argued Ricardo, “to say that the cause of the high profits was the greater proportion of demand for produce, when in both countries, the supply would be, or might be, precisely equal to the demand, and no more.” This remark stimulated Malthus to make the following reply, which for the first time brought “Mr Mill’s theory” into the picture and raised the question of the possibility of a general insufficiency of effective demand:

I think you would allow that when capital is scanty compared with the means of employing it, from whatever cause arising, whether from insecurity of prop-

These propositions were batted back and forth between the two men in a few more letters. The appearance of the second edition of Say's *Trade*, supporting "the doctrine that demand is regulated by production", was commented upon by Ricardo, but Malthus, who had then become very busy writing his pamphlet on rent, had little to say in reply, and the controversy over "Mr Mill's idea" temporarily died down.

Let us pause at this stage to consider what "Mr Mill's idea" actually was, or at least what it was then conceived to be by Malthus and Ricardo. Basically, as can be seen from the above account of the debate, it was the idea that "in reference to a nation, supply can never exceed demand". Now this idea was in effect a combination of three logically separate propositions which may be stated as follows:

(i) That "the power to purchase may . . . be represented correctly by the produce of the country whether small or great".

This is a crude formulation of what may perhaps be called "Say's Law proper". As Schumpeter puts it, Say had perceived that

under division of labour, the only means normally available to everyone for acquiring the commodities and services he wishes to have is to produce – or to take part in the production of – some equivalent for them. It follows that production increases not only the supply of goods in the markets but normally also the demand for them. *In this sense*, it is production itself ("supply") which creates the "fund" from which flows the demand for its products: products are "ultimately" paid for by products in domestic as well as in foreign trade.

Now proposition (i) obviously does not in itself embody the notion that "in reference to a nation, supply can never exceed demand". In order to proceed to the latter, one must say in addition two things about the actual exercise of the "power to purchase". First, one must make it clear that if purchasing power is invested instead of being spent on immediate consumption this will not diminish effective demand – i.e., as Ricardo put it,

(ii) That "the desire of accumulation will occasion demand just as effectually as a desire to consume".

Second, one must make it clear that under normal circumstances there will be no hoarding – i.e., that income will be fully "spent" either in accumulation or in current consumption. This was expressed by Ricardo in the form of the proposition

(iii) That it is untrue that "with an increase of capital men will become indifferent both to consumption and accumulation".

Since (i) is obviously true, it appears to follow, if (ii) and (iii) are also held to be true, that "in reference to a nation, supply can never exceed demand".

Let us henceforth call (i) "Say's Law proper", and (i) plus (ii) plus (iii) "Mill's Theory". So far as Say's Law proper is concerned, it is probably true to say that Ricardo was aware of it at least from the time of publication of Mill's *Commerce Defended*, and that it formed part – although not a very important part – of the intellectual apparatus which he used when writing his "papers on the profits of Capital" at the beginning of 1814. But when Keynes described as "fundamental to the Ricardian economics" the idea that "we can safely neglect the aggregate demand function", it was clearly Mill's Theory rather than Say's Law proper which he had in mind. Say's Law proper, after all, is obviously true, and Keynes would surely not have condemned Ricardo for holding to it. And it seems fairly clear from the events of 1814, as described above, that Mill's Theory was not in any way "fundamental" to Ricardo's system, at any rate at its then stage of development. The role of Mill's Theory at that time was simply to assist Ricardo to dispose of a particular objection which Malthus happened to have raised against his idea that "if there were no increased difficulty [in obtaining food], profits would never fall" with the accumulation of capital. This basic idea had been clearly expressed in Ricardo's letter of March 1814 to Trower, and it was incorporated without substantial alteration in his *Essay on the Profits of Stock* which appeared in February 1815 and which contained no reference whatever, whether express or (as far as one can see) implied, to Mill's Theory.

After the publication of the *Essay*, Ricardo retreated from the idea that "it is the profits of the farmer which regulate the profits of all other trades". The general idea that profits "depend on the price or rather on the value of food" was retained in the *Principles*, but emphasis was now laid almost exclusively on the effect which the changes in the value of food associated with accumulation would have on profits through the

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37 Above, p. 59.
38 *History of Economic Analysis*, p. 616.
39 Above, p. 59.
40 Above, p. 59.
41 Above, p. 53.
43 Above, 56–7.
44 Cf. *Sraffa*, in *Works*, Vol. IV, p. 4: "When in February 1815, Malthus's pamphlets appeared, Ricardo was able to write within a few days his *Essay on the Influence of a Low Price of Corn on the Profits of Stock*, by using his already developed theory of profits, incorporating Malthus's theory of rent, and adding a refutation of the protectionist arguments put forward by Malthus in his *Grounds of an Opinion".
45 Above, p. 57.
medium of the consequent changes in wages. 47 This new version of the theory was related to an important general proposition which Ricardo had laid down in a letter to Malthus as early as 26th June 1814: "The rate of profits and of interest must depend on the proportion of production to the consumption necessary to such production,—this again essentially depends upon the cheapness of provisions, which is after all, whatever intervals we may be willing to allow, the great regulator of the wages of labour." 48 As Ricardo’s theory of value was developed, it became possible for him to express this basic proposition in the form which it assumed in the Principles—that profits depended on the “proportion of the annual labour of the country . . . devoted to the support of the labourers”. 49 If this proposition were true, it followed that nothing could permanently lower the rate of profit which did not increase the quantity of social labour which it was necessary to allocate to the wage-goods industries relatively to the quantity allocated to the non-wage-goods industries. This way of formulating the theory added a new dimension, as it were, to Ricardo’s reply to Malthus’s objection to it: changes in “the proportion of demand to the supply” would clearly not affect the crucial ratio. At the same time, it meant that more was at stake than before: if Malthus were proved to be right, it could plausibly be maintained that Ricardo’s theory of value would be discredited along with his theory of profit.

It was the first of these two factors rather than the second which seems to have been uppermost in Ricardo’s mind when writing the Principles. “Say’s Law” is not mentioned (apart from a commendatory reference in the Preface) 50 until Chapter XXI, where Ricardo uses it to refute Adam Smith’s theory of the falling rate of profit. At the beginning of the chapter, Ricardo makes it clear that he believed Smith to have been already refuted by the theory of profit outlined in the preceding chapters. “From the account which has been given of the profits of stock,” he writes, “it will appear, that no accumulation of capital will permanently lower profits, unless there be some permanent cause for the rise of wages. . . . If the necessaries of the workman could be constantly increased with the same facility, there could be no permanent alteration in the rate of profits or wages, to whatever amount capital might be accumulated.” 51 But “Say’s Law” was such a convenient weapon (and, as will be seen shortly, had such useful political connotations) that Ricardo could not resist using it as a reply to Smith’s theory (and, of course, by implication, to the arguments Malthus had put up):

Adam Smith . . . uniformly ascribes the fall of profits to accumulation of capital, and to the competition which will result from it, without ever advertting to the increasing difficulty of providing food for the additional number of labourers which the additional capital will employ . . . He does not appear to see, that at the same time that capital is increased, the work to be effected by capital, is increased in the same proportion. M. Say has, however, most satisfactorily shewn, that there is no amount of capital which may not be employed in a country, because demand is only limited by production. No man produces, but with a view to consume or sell, and he never sells, but with an intention to purchase some other commodity, which may be immediately useful to him, or which may contribute to future production. By producing, then, he necessarily becomes either the consumer of his own goods, or the purchaser and consumer of the goods of some other person.

There cannot, then, be accumulated in a country any amount of capital which cannot be employed productively, until wages rise so high in consequence of the rise of necessaries, and so little consequently remains for the profits of stock, that the motive for accumulation ceases. 52

The main emphasis here is on proposition (i) above (Say’s Law proper), but propositions (ii) and (iii) are also fairly clearly implied. This conversion of Say’s Law proper into Mill’s Theory is confirmed in a passage which almost immediately follows:

If ten thousand pounds were given to a man having £100,000 per annum, he would not lock it up in a chest, but would either increase his expenses by £10,000; employs it himself productively, or lend it to some other person for that purpose; in either case, demand would be increased, although it would be for different objects. If he increased his expenses, his effectual demand might probably be for buildings, furniture, or some such enjoyment. If he employed his £10,000 productively, his effectual demand would be for food, clothing, and raw material, which might set new labourers to work; but still it would be demand. 53

These passages were not altered in the third edition of the Principles (1821), in spite of the fact that Malthus’s Principles of Political Economy, with its important new contribution to the “general glut” controversy, had appeared in April 1820. 54 In the light of this fact, remembering that Ricardo considered “the most objectionable chapter in Mr. Malthus’ book” to be “that perhaps on the bad effects from too great

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47 This line was fairly clearly foreshadowed in a letter to Malthus of 18th December 1814; see Works, Vol. VI, p. 162.

48 Works, Vol. VI, p. 110. Sraffa (Works, Vol. I, p. xxxii) describes this passage as the nearest that Ricardo ever came to an explicit statement of the “corn-ratio” theory of profit which he allegedly held in the early days of the development of his system. My own feeling, however, is that the passage in question looks forward to the mature theory of profit of the Principles much more than it looks back at any early “corn-ratio” theory.


accumulation of capital”, 114 and looking at the passages quoted above in their general context, it seems fair to suggest that Ricardo himself did not consider Mill’s Theory to be of substantial analytical importance in relation to his mature system.

Analytical importance is one thing; political importance is another. Once admit that profits might be lowered as a result of accumulation per se, “without ever adverting to the increasing difficulty of providing food”, 115 and the way was immediately laid open for serious criticism of the economic system. Ricardo was never particularly concerned to defend the interests of any single social class except in so far as the interests of that class happened to be bound up with an increase in production, 116 but it would hardly have been possible for his attitude towards the economic system itself not to have been to some extent apologetic. Although the institutional foundations of the system had not yet been seriously called into question in Britain, a tendency was already becoming apparent among those who defended the system to explain certain manifest defects in its working in terms of the operation of factors external to it. The appalling poverty among the lower orders, for example, was explained by means of the Malthusian theory of population. A more difficult problem was set by the mysterious “tendency of the rate of profit to fall”. If the rate of profit tended naturally to fall as society progressed, and if capital accumulation depended upon profits, then a limit seemed to be set to the expansion of social welfare under the existing system. If accumulation were necessarily attended by the destruction of the ability and motive to accumulate, how could this state of affairs be explained without impugning the system itself? 117 Ricardo might insist that the stationary state could not properly be described as a state of stagnation, 118 and that in any event it would not be reached for a very long time, but the doubt remained. Here again an external factor – in this case Nature – was brought in by way of explanation. Not even the best of all possible economic systems, it was maintained, could overcome the obstacle of diminishing returns in agriculture. To economists thinking almost instinctively in such terms, Malthus’s suggestion that the system itself was internally defective – if only in the sense that its continued progress required the existence of a vast horde of idlers – must have come as something of a shock, 119 and it is hardly sur-

prising that all the available theoretical weapons, including Mill’s Theory, should have been employed against such a major heresy.

One thing which seems to require explanation is Ricardo’s insistence, at any rate towards the close of his life, that Mill’s Theory was fully operative even in the short period. Little damage would surely have been done to Ricardo’s system by a recognition of the fact that over-accumulation might occasionally cause a temporary fall in profit – provided, of course, that the existence of effective long-run corrective tendencies was also recognized. Ricardo’s advocacy of a fairly inflexible version of Mill’s Theory seems to have been associated with his desire to defend certain important political conclusions suggested by his idea that profits depended solely upon the value of food. In his 1815 essay he had argued that the long-run tendency of the rate of profit to fall might be hindered by (inter alia) agricultural improvements and a fall in the price of imported corn. 120 But agricultural improvements (at least in the short run) and an abolition of restrictions upon importation were against the interests of the landlords, since they would each lead directly to a fall in rents. Thus the theory that profits depended solely upon the value of food implied that “the interest of the landlord is always opposed to the interest of every other class in the community”, 121 since the interests of the other classes obviously lay in checking the “natural” fall in profits as far as this was possible. There is little doubt that Malthus’s desire to find an alternative theory of profit which did not involve this unfortunate political conclusion was at least partly responsible for his contention that profits might fall, even though improvements were encouraged and the Corn Laws repealed, if production outstripped consumption. The important point seems to be that Ricardo believed Malthus to have asserted, not only that this might happen, but also that it latterly had happened. 122 The question at issue, then, was not only an academic one: it was related directly to the thorny problem of the cause of the present distresses. If Ricardo were correct, it followed that the actions of those of his contemporaries who were at that time fighting in various ways to weaken the influence of the land-owning interests were supported by the new science of political economy. If Malthus were correct, on the other hand, it followed that they were simply wasting their time. Indeed, their actions might be positively harmful, since if the

114 Ibid., Vol. VIII, p. 181.
115 Above, p. 63.
116 Cf., e.g., Works, Vol. IV, p. 41.
119 Ricardo several times complains that Malthus sees “great evils in great powers of production” (ibid., Vol. IX, p. 23). His tone in some of these passages shows how seriously his moral conscience was shocked by the nature of Malthus’s critique.
122 Ibid., Vol. IX, p. 16: “You often appear to me to contend not only that production can go on so far without an adequate motive, but that it actually has done so lately, and that we are now suffering the consequences of it in stagnation of trade, in a want of employment for our labourers, &c. &c., and the remedy you propose is an increase of consumption” (letter of 9th July 1821).
existence of a class of unproductive consumers were in fact a permanent institutional necessity, then so far from the interests of the landlord being always opposed to those of the rest of the community, the economic health of the rest of the community actually depended upon the wealth and idleness of the landlord.

To sum up, then, it would seem to be very misleading to speak, as Keynes did, as if "the idea that we can safely neglect the aggregate demand function" was "fundamental to the Ricardian economics" at any rate if this be taken to imply that we can say anything very useful about the development of "Ricardian" economics after Ricardo's death in terms merely of the survival of Say's Law and Mill's Theory. Politically, there is no doubt of their importance, although this was probably greater for the immediate followers of Ricardo than for Ricardo himself. Analytically, they were important only in so far as they provided Ricardo and his followers with an effective means of counter-attack against one of Malthus's criticisms of their basic theory.65

III

If Ricardo himself had been asked to note down those of his doctrines which he regarded as "fundamental" to his mature system, there is little doubt that his theory of value would have appeared high up on the list. "I confess it fills me with astonishment", he wrote to Malthus in 1818, "to find that you think... that natural price, as well as market price, is determined by the demand and supply... In saying this do you mean to deny that facility of production will lower natural price and difficulty of production raise it?... If indeed this fundamental doctrine of mine were proved false I admit that my whole theory falls with it."66 By this time Ricardo was fully aware of the kind of function which a theory of value ought to fulfil in a theoretical system such as his, and had seized upon human labour as the substance and measure of that "difficulty or facility of production" which in his view determined natural price. It was by no means an easy task for an economist at this time to emancipate his thought from the traditional notion that labour contributed value to its product only through the medium of wages paid to it, and Ricardo was virtually the first to fashion anything like a consistent theory of value from the notion that it was not the capitalist's expenditure on subsistence goods for his workmen but the expenditure of energy by the workmen themselves which conferred value on commodities.

65 Above, p. 53.
66 For some further comments on the role of "Say's Law" in the Ricardian system, see below, p. 183.
68 Ibid., Vol. IV, p. 20.
69 S. Read, An Inquiry into the Natural Grounds of Right, etc., p. 203.
70 C. F. Cotterill, An Examination of the Doctrine of Value, etc., p. 8.
71 Read, Inquiry, p. viii, footnote.
72 Checkland, op. cit., pp. 50-51.
Profits were now generally acknowledged to have been erroneous. Bailey had settled the question of value and Thompson that of rent; and Ricardo's omission to take account of the replacement of fixed capital "was decisive of the unsoundness of his views" on profit. McCulloch admitted that Ricardo's theory of profit was defective in this respect, but energetically defended his theories of value and rent. Tooke supported Ricardo only on the question of rent. At the adjourned meeting it seems to have been generally agreed that "neither [Ricardo's] Theories of value, nor his Theories of Rent and profits are correct, according to the very terms of his propositions; but they are right in principle". There follows in Mallet's account an important catalogue of Ricardo's errors:

He is one of the first who has treated the subject of Taxation, and he always reasons out his propositions, whether true or false, with great logical precision and to their utmost consequences; but without sufficient regard to the many modifications which are invariably found to arise in the progress of Society. One of the errors of Ricardo seems to have been to have followed up Malthus' principles of population to unwarrantable conclusions. For, in the first place it is clear from the progress of social improvement and the bettering of the condition of the people in the greater part of the civilized world, that Capital, or the means of Employment - the fund for labour - increases in a greater ratio than population; that men generally reproduce more than they consume, and the interest of the capital besides, which surplus goes to increase the fund for labour. Then he looks forward from the gradual demand for food and the use of land, to the gradual lowering of wages and profits till nothing remains but rent to the Landlords. But long before that, modification would take place in the state of society which would make such conclusions all wrong. First of all, it is contended that the interest of the Landlords does in fact coincide with those of the other classes; and then we see that in Ireland, where rent is absorbing everything, in consequence of the immense competition for land, a system of Poor Laws is likely soon to equalize the division.72

What were the reasons for the rapid decline which manifested itself at this time in the influence of certain fundamental Ricardian doctrines? One may say, of course, if one wishes, as Schumpeter did, that it was due to the "inherent weaknesses" of the system itself.73 But something more than this is surely required to explain the strength, vigour and virtual universality of the early reaction against Ricardo. These were above all due, I suggest, to the fact that a number of elements in his system seemed to set limits to the prospects of uninterrupted and harmonious progress under capitalism. In particular, the work of the

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72 Centenary Volume of the Political Economy Club (London, 1921), pp. 35, 36 and 213-5. I am indebted to Professor Hayek for drawing my attention to these passages.
73 Above, p. 54.

Ricardian socialists revealed certain disharmonious and pessimistic implications of Ricardo's system so forcibly that the economists of the day could hardly avoid being influenced by them in the course of their revaluations of Ricardo.

A significant number of economists was at this time becoming conscious of the fact that the labouring classes were beginning to think for themselves and to question the moral validity of the foundations of the social structure. In his Elements of Political Science, published in 1814, John Craig could remark that "the fear of levelling is altogether chimerical".74 In the first edition of Mrs Marcet's Conversations (1816) we find Mrs B denying that she would teach political economy to the labouring classes. Yet only ten or twelve years later Mrs Marcet is to be found vying with Harriet Martineau in the composition of economic fairy tales of a wholesome moral character for the enlightenment of the proletariat. So long as the labouring classes are passive and ignorant their views on political economy can be ignored. But when it becomes no longer possible to prevent them from listening to Mr Hodgskin at a Mechanics' Institute the situation has radically changed. The fear of levelling is no longer chimerical. Evidence that the seriousness and importance of this change were widely appreciated is to be found in the works of many economists of the period, but by no one were the facts more cogently stated, and the new tasks facing political economy more admirably summarized, than by Mountfort Longfield in 1833:

It is daily becoming more important that the notions which are generally entertained should be correct, since they now lead so directly to action... No person can now remain altogether neutral, and avoid such topics. He must, according to the degree of pains he has taken with the subject, be a teacher of useful truth, or a disseminator of mischievous falsehood. Opinions... exercise immense influence on a class of people formerly removed beyond the reach of such discussions... I allude to the labouring orders, both agricultural and manufactural. It is no longer a question, whether these men shall think or not, or what degree of influence their opinions ought to exert over their conduct; they will follow the path where they conceive their interests to point, and it only remains to be considered, in what manner a true sense of their real interests may be most effectually brought home to them. The change has taken place, whether for the better or the worse it is useless now to enquire, since the steps which have led to it can never be retraced. The people will no longer be guided by the authority of others... It depends in some degree upon every person present, whether the labourer is taught that his interest will be best promoted by prudence and industry, or by a violent demolition of the capital destined to his support.75

75 Conversations on Political Economy, p. 158.
It is evident, too, that the majority of economists were very much aware of the dangerous use to which a number of radical writers were putting certain Ricardian concepts. To the extent that the arguments of the radicals were taken up by the working-class movement, the claim to the whole produce of labour — or even to a greater proportion of the produce of labour — appeared as a monstrous assault on the very foundations of civilized society. The work of men like Charles Hall and Piercy Ravenstone might be safely ignored; but Hodgskin’s Labour Defended, born as it was of the working-class activity which followed the repeal of the Combination Laws, could not be so easily passed over. In a number of cases Hodgskin was attacked directly. The American economist Thomas Cooper wrote in 1830:

The modern notions of Political Economy among the operatives or mechanics are stated, but not very distinctly, by Thomas Hodgskin in his treatise on Popular Political Economy... If these be the proposals that the mechanics combine to carry into effect, it is high time for those who have property to lose, and families to protect, to combine in self-defence. Charles Knight’s edifying work, The Rights of Industry, published in 1831 under the superintendence of the Society for the Diffusion of Useful Knowledge, seems to have been aimed directly at Hodgskin, and had a very wide influence. Samuel Read obviously considers Hodgskin and others like him who flatter and persuade the workers “that they produce all” as the main enemies against whom his reasoning is directed; and Scrope finds “truly unaccountable” the blindness of Hodgskin and all others who “claim against capital as the poison of society, and the taking of interest on capital by its owners, as an abuse, an injustice, a robbery of the class of labourers.”

It is hardly too much to say that every new development in economic thought in England about this time had the objective effect of cutting the ground from under the feet of writers like Hodgskin and William Thompson. And at least in some cases there can be little doubt that the critics of Ricardo knew exactly what they were doing and why they were doing it. Scrope, for example, was disarmingly frank. “At the time of the passing of the first Reform Bill,” he wrote in 1873, “it became evident that the power of directing the Legislation of Britain was about to pass... from the hands of the few into those of the many.” Wishing to

77 Francis Place drew attention to the interesting fact that Hodgskin’s ideas attracted large numbers of disillusioned Owneyes (B.M., Place Ad. Ms., 27, 791, F. 263).
79 Read, Inquiry, pp. 125–32, xxix, etc.

estimate the probable results of this change upon “the social destinies of the country”, Scrope endeavoured to ascertain “what were the notions likely to prevail among the masses, when they became the repositories of supreme power, with regard to the principal institutions of modern society”. What lessons in this respect, he asked himself,

... were they likely to imbibe from the current doctrines of Political Economy? Were these lessons fitted to reconcile them to the hardships of a condition of almost ceaseless toil for, in many cases, but a meagre subsistence; and this in a country overflowing with wealth enjoyed in idleness by some at the expense (as might at first sight appear to them) of the labour of others? On examination of the works of the most noted Economists of the day, Messrs Ricardo, Jas. Mill, Maculloch, Malthus, Chalmers, and Whately, I could not discover in them any answer likely to satisfy the mind of a half-educated man of plain common-sense and honesty who should seek there some justification for the immense disparity of fortunes and circumstances that strike the eye on every side. On the contrary, these works appeared to me to contain many obvious inconsistencies and errors, to inculcate many false and pernicious principles, and certainly to be little adapted to the purpose which I looked for in them.

Approaching political economy in this spirit, it is hardly surprising that Scrope should have been the first British economist to propound a consistent version of the abstinence theory. Samuel Read was another who understood perfectly well that Ricardian political economy could be made to lead logically to radicalism. His refutation of the “mischievous and fundamental error” of the “Ricardo economists” (i.e., their doctrine that “labour is the only source of wealth”) consists largely of an endeavour to put forward as many apologetic theories of profit as possible, regardless of consistency. And Longfield, finally, was surely quite as fully aware of the political and ethical implications of his theory of distribution as was J. B. Clark of those of his some sixty years later. It seems not too unfair to say that economists like Scrope, Read and Longfield, in varying degrees, tended towards the view that if a doctrine “inculcated pernicious principles”, if it denied that wealth under free competition was consigned to its “proper” owners, or if it could be so interpreted as to impugn the motives or capacity of the Almighty, then that doctrine must necessarily be false. Their fundamental approach, in other words, was determined by a belief that what was socially dangerous could not possibly be true.

To say that the work of Hodgskin and his fellow radicals had more to do with the innovations of the period than it is usual to admit is neither
to decay the great originality and importance of some of the new contributions nor to assert that the majority of their authors were consciously indulging in apologetics. The writings of men like Bailey, West, Lloyd and Longfield possess an interest and significance which are by no means purely historical, and remain as important landmarks in a period of great anticipations. But surely something more than mere intellectual curiosity and the “inherent weaknesses” of the Ricardian system must be postulated to account for the iconoclastic attitude adopted towards that system by so many of the innovators. As I have suggested above, this attitude would seem to have been largely due to a feeling that any theory which suggested that the possibilities of uninterrupted and harmonious progress under capitalism were limited could not be true. Even Hodgskin admitted that he disapproved of certain of Ricardo’s doctrines because they seemed “to set bounds to our hopes for the future progress of mankind in a more definite manner even than the opinions of Mr. Malthus”.  

It did not take very long for most of the more “pessimistic” Ricardian doctrines to fall into disuse or to be amended out of all recognition. In 1835, Mallet reports that “the whole artillery of the Club” was directed against Malthus’s principle of population. As early as 1831, as we have seen, the Club seems to have agreed that the interest of the landlord was not in fact in conflict with the interests of the other social classes, and also that the doctrine of the stationary state required radical amendment. In the early 1830’s it was widely suggested that industrial experience had proved Ricardo’s theory of the inverse relationship between wages and profits to be false, since wages and profits might and often did increase together. The Ricardian concepts of value as embodied labour and profit as a kind of surplus value, which had proved so useful to the radicals, were among the first to be amended or rejected: value began to be conceived in terms of utility or cost of production, or sometimes (as with Bailey) as little more than a mere relation; and profit came to be explained not as the result of something which the labourer did but as the result of and reward for something which either the capitalist or his capital did. John Stuart Mill, growing up in this new revisionist atmosphere, found no difficulty in incorporating Senior’s abstinence concept into his system and in substituting a rather superficial cost of production theory of value for Ricardo’s labour theory. Richardson’s system, in short, was purged of most of its more obviously disharmonious elements, particularly those which might have been used to suggest that there was a real conflict of economic interest between social classes under capitalism, or that progress under capitalism might be limited for some other reason.

IV

We are left, then, with Schumpeter’s problem: if it is true that by the early 1830’s “Ricardianism was... no longer a living force”, how can we account for “the prevailing impressation to the contrary”? The factors which Schumpeter himself stressed—the “faithfulness of the renchmen who continued to stand by their guns, the lag of public opinion, and “Ricardo’s personal prestige” — were all doubt quite important. The last was probably of more significance than the others, since, as Schumpeter pointed out, “[J. S. Mill emphasized his early Ricardianism throughout and neither realized himself nor made it clear to his readers how far he had actually drifted away from it by the time he wrote his Principles”. But even more important, surely, was the fact that certain of the theoretical notions, attitudes and emphases which had characterized Ricardo’s work did in fact survive the purge and reappear in Mill’s Principles more or less unscathed. I am thinking here in particular of Ricardo’s emphasis on “the progress of a country in wealth and the laws by which the increasing produce is distributed” as one of the main problems of political economy; of his notion that the productivity of labour in agriculture governed the rate of profit on capital; of his insistence that the problem of value had to be tackled from the cost side; and of his acceptance of Say’s Law proper and Mill’s Theory. The indubitably “Ricardian” flavour of these ideas and emphases, put together as they were in a book which did actually effect something of a minor counter-revolution so far as “Ricardian” ideas in general were concerned, was sufficiently strong to lead contemporaries to believe that “Ricardianism” had indeed triumphed. The fact that Mill “only succeeded in upholding an emasculated version of Ricardo’s system” appeared less important than the fact that it was indeed a version of Ricardo’s system which he upheld.

Only if one chooses to define the essence of Ricardo’s system in terms of one or more of these ideas which survived, however, is it really possible to claim that “Ricardianism” won the victory. So far as Mill’s Theory is concerned, I have given reasons above for the view that it cannot plausibly be described as fundamental to Ricardo’s system. So

84 Letter to Place of 28th May 1820 (B.M., Place Add. Mss., 35,153).
86 Above, p. 54.
87 History of Economic Analysis, p. 478.
89 M. Blaug, Ricardian Economics (New Haven, 1958), p. 167. (My italics.)
far as the cost approach to the value problem is concerned, I think it
would be fairly generally agreed that there was nothing specifically
"Ricardian" about this. This leaves only the first two ideas mentioned
above. If one defines these, as Dr Blaug has recently done, as "the heart
of the Ricardian system", then the conclusion that "Ricardianism"
won the victory naturally follows from the definition. My only real
objection to this procedure is that it involves us in saying that most of
Ricardo's opponents were themselves "Ricardians", since, as Dr Blaug
himself points out, "most economists in the period, including most of
Ricardo's critics, did believe that the amount of profit and, given the
stock of capital, the rate of profit are govemcd by the efficiency of
labour in agriculture". Provided we recognize this, however, I see no
reason why we should not use Dr Blaug's definition if the task we have
in hand seems to require it. Each of the definitions of "Ricardianism"
which we have considered - with the exception, perhaps, of that of
Keynes - has helped to add something of importance to our knowledge
of what actually happened during the period in question. It is the facts
which are important, not the labels which we decide from time to time
to attach to them.

THOMAS JOPLIN AND
THE THEORY OF INTEREST

I

Keynes's notion, that savings and investment should be regarded as
determining not the rate of interest as the "Classical" theory had
assumed, but the volume of output and employment was no doubt the
most significant feature of his contribution to economic thought, 8
Whereas the "Classical" economists thought in terms of the amount
saved out of a given income, with the rate of interest as its most im-
portant determinant, we have now become accustomed to think in terms
of the amount saved out of a variable income, with the effect of the
rate of interest lumped together with that of the other factors upon
which saving depends under the general heading of the propensity to
save. Most "Classical" economists, of course, recognized that saving
actually did vary with income, just as they usually recognized that
income varied with investment; what they did not realize was the
relevance of these facts to some of the problems (particularly the prob-
lem of employment) which their theory of interest was believed to
illuminate. The "Classical" savings and investment curves were actu-
ally interdependent, but this did not become clear until the importance
and relevance of changes in the level of income had been appreciated.
Once the inhibiting assumption of a given income was dropped, income
quite naturally began to appear as the primary variable in the savings
function. The crucial step had then been taken, and the new Keynesian

1 This essay is an amended version of an article which appeared in the Review of
Economic Studies, No. 47, 1950-51. The amendments, which relate almost exclusively
to the account of Ricardo's theory of accumulation in section II, have been made in an
endeavour to take account of the criticism of my original views expressed by Professor
108-10.

2 In this essay, I use the word Classical in quotation marks in Keynes's sense, and
without quotation marks in Marx's sense. (See Keynes, General Theory, p. 3, footnote.)

3 This remark and those which immediately follow are not, of course, to be construed
as contributions to the current "Keynes versus the Classics" controversy! They are
intended merely to reflect the great liberating effect, in the years following the publi-
cation of the General Theory, of the simple "Keynesian savings-investment-income cross"
(s. Samuelson's 1946 comments on "the vitally important consumption function",
reprinted in Keynes' General Theory: Reports of Three Decades (ed. Lekachman, New York,
1964), p. 330.)

growth and the changes in the distributive shares so permeated economic thinking in
the period that even those who revolted against Ricardo's authority in fact accepted its
essential outlook."