

# Geoists in History

## David Ricardo (1772-1823)

by Karl Williams



*"The interest of the landlord is always opposed to the interests of every other class in the community."*

The father of classical political economy, David Ricardo, was more than a theoretical economist for his economics armed the reformers attacking the agricultural aristocracy's obscene economic privileges. While his days on Earth were few, his impact still ripples down the ages to this very day.

Both political extremes drew on his work for its pioneering formulations - those who favored his laissez-faire capitalism, and those who opposed it. As a politician, Ricardo was given a stage to present his opinions regarding a wide range of issues, and his stature in the newly emerging field of economics enabled his writings to influence some of the great thinkers of his day.

As so many historians have said, "the nineteenth century belonged to Britain", and Ricardo's promotion of free trade gave an incalculable boost to British industry and global influence. While some of Ricardo's theories have been modified and superseded, his foundational role in the development of economics is secure for all time.

Born in 1772, Ricardo was the third of seventeen children. His family was descended from Iberian Jews who had fled to Holland in the early 18th

Century with Ricardo's father, a stockbroker, having emigrated to England shortly before David was born.

Economics seemed to be in Ricardo's blood, even though economics itself was only a nebulous emerging discipline at the time. He joined his father's stockbroking business at the tender age of 14 and immediately showcased his exceptional business acumen in dealing with financial matters.

If Ricardo's life had stayed on track, he would have carried on the family business with great success, immersing himself in family matters and the family's orthodox Judaism..... but the world would never have heard of him. The Universe would have to drop a bombshell to shake things up, and did so in the form of a young Quaker woman for whom Ricardo fell head over heels. In the wake of his decision to elope with his darling Priscilla at the age of 21, he was immediately disowned by his family with his mother never speaking to him again.

Never mind! Ricardo left orthodox Judaism behind, followed his own star, and never looked back. His impressive performance in the stock exchange thus far had meant that he could continue operating as a member without his father's support, and he soon received the backing of a banking house.

At this point, Ricardo had two key qualifications to shake up the world ... (1) a brilliant mind, and (2) his escape from restrictive family influences and stifling religious orthodoxy. It didn't take him many years to attain the third requirement which would enable him to develop breathtakingly original intellectual discoveries - namely, the massive wealth which would allow him the freedom to retire from work and follow his educational interests. After making a few killings on the London Stock Exchange (by today's standards, around US\$100 million), he was off and running.

How can a person make so much money that quickly? "Only by dodgy means!" comes the

chorus. It is reported that Ricardo made the bulk of his fortune as a result of speculation on the outcome of the Battle of Waterloo. Prior to the battle, Ricardo posted an observer to convey early results of the outcome. He then deliberately created the mistaken impression that the French had won by initially openly selling British securities. A market panic ensued. Following this panic he moved to buy British securities at a steep discount. *The Sunday Times* reported in Ricardo's obituary that during the Battle of Waterloo Ricardo "netted upwards of a million sterling", a gigantic sum at the time. When word got out about his market manipulation, his position on the floor of the stock exchange no longer tenable and so he immediately retired. He then purchased Gatcombe Park, an estate in Gloucestershire (now owned by Princess Anne), and withdrew to the country. He eventually had eight children or, as they preferred to put it in those days, "he had three sons".

Ricardo had become interested in the emerging field of economics after reading Adam Smith's *The Wealth of Nations* when he was 27, but after he had begun to make his fortune he was able, in the style of an English gentleman with no need to work, to follow his intellectual interests. In oak-paneled studies, his ideas were fuelled by conversations with friends who were some of the world's great intellectual giants. These included the utilitarian philosopher Jeremy Bentham and the influential thinker Thomas Malthus.

It wasn't until 10 years after reading Smith that Ricardo wrote his first economic article, which only left another 14 years before his time was up. While his style was rather abstract, he is still greatly regarded for his ability to arrive at complex conclusions without any of the mathematical tools now deemed essential.

His interests spanned all areas of economics. - nay, in many instances he pioneered economic theory. He was an early advocate for the quantity theory of money, or what is known today as monetarism. He articulated what became known as the law of diminishing returns and developed many theories of wages and profits.

Our understanding of the advantages of free trade is greatly indebted to Ricardo. He challenged the prevalent idea that the purpose of trade was merely to accumulate gold or silver.

With "comparative advantage" Ricardo argued in favour of industry specialization and free trade. He demonstrated how industry specialization combined with free international trade produces positive economic results. Ricardo's novel illustrations showed how that there is mutual national benefit from trade even if one country is more competitive in every area than its trading counterpart and that a nation should concentrate resources only in industries where it has a comparative advantage.

Ricardo fearlessly took on Britain's landed aristocracy. In 1815 a controversy arose over the Corn Laws, when the government passed new legislation that was intended to raise the duties on imported wheat.

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*Ricardo immediately responded to the Corn Laws by publishing his Essay on the Influence of a Low Price of Corn on the Profits of Stock, in which he argued that raising the duties on imported grain had the effect of increasing the price of corn and hence increasing the incomes of landowners and the aristocracy at the expense of the working classes and the rising industrial class.*

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He argued that the abolition of the Corn Laws would help to distribute the national income towards the more productive groups in society.

In 1817 Ricardo published the ground-breaking *Principles of Political Economy and Taxation* in which he developed theories of wages, profits, and rent (with rent being the benefit that accrues to scarce resources). Ricardo demonstrated that, because of the unique qualities of land, the interests of landlords were not only antithetical to the rest of the community, but landlords and capitalists were adversaries.

Ricardo's *Law of Rent* and his identification of the singular behaviour of rent is perhaps his greatest contribution to economics. In contrast to the Property Council of Australia which still today dishonestly proclaims that they'll pass on any geoist charges on land onto tenants, Ricardo demonstrated 200 years ago that a tax on rents falls wholly on the landlord.

It's worth restating the Law of Rent here in succinct modern terms.

## RICARDO'S LAW OF RENT

### WHO GETS THE COCONUTS?

*Robinson Crusoe finds himself alone on a desert island. Rob naturally settles on the best available land which, for argument's sake, can produce 20 coconuts per hectare per week. Along comes Man Friday, who gets the second-best land producing 18 coconuts per week. This best, freely-available land of Friday is called the marginal land and, as we'll see, determines both the level of wages and that of rent.*

*For how much could Rob rent out his land – 2 coconuts or 20 coconuts per week? Friday would only be prepared to pay 2, because he can already get 18 from his. So here's our first definition, that of the Law of Rent: The application of labour and capital equipment being equal, the rent of land is determined by the difference between the value of its produce and that of the least productive land in use. If Man Saturday comes along (the next day?!) and finds that the best available land can only produce 15 coconuts per week, then anyone who had been renting a hectare of the best 20-coconut land will suddenly find that their rent will rise from 2 to 5 coconuts per week.*

*What then determines the level of wages? When Friday came along and could work land yielding 18 coconuts per hectare in a week, then he wouldn't accept wages offered by Rob for less than 18 coconuts. But when Saturday arrived, suddenly Friday could only command 15 per week, because Rob knows that the going rate (that applicable to Saturday at the margin) is only 15. So here we have the Law of Wages, which is the corollary of the law of rent: Wages are the reward that labour can obtain on marginal land, i.e. the most productive land available to it without paying rent.*

Ricardo held that individuals have no right to seize and monopolize scarce natural resources, such as land, minerals, water, and forests. He wrote that because these resources are both limited and essential for human survival, they should belong to the public. He termed unearned income from land as a pernicious anomaly "that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil". Henry George was greatly influenced by Ricardo and often cited him; including in the preface of his most famous work, *Progress and Poverty* (1879). George showed how Ricardo's Law of Rent applies not just to an agricultural economy, but even more so to urban economics.

With his writing largely over, Ricardo devoted the last part of his life to politics in an attempt to influence policy. How did a gentleman enter politics in those days? Whatever the question, money seems to be the answer. In 1818 he bought Lord Portarlington's seat in Parliament for £4,000, as part of the terms of a loan of £25,000. His time in parliament saw him campaign on many issues besides direct geoist reforms, including the abolition of slavery, paying off the national debt, currency reform, abolition of the Corn Laws pro-

tecting British wheat, poor laws, military reform, the secret ballot, Catholic emancipation and the condemnation of political repression.

Ten years after retiring and four years after entering parliament Ricardo died aged a mere 51 from an infection of the middle ear that spread into the brain and induced septicemia.

If climate chaos doesn't roast this planet and humanity still exists in a thousand years, the name of David Ricardo will still be etched in the Economists' Hall of Fame. When it comes to economics, discoveries don't get much bigger than the Law of Rent.

*"A land-tax, levied in proportion to the rent of land, and varying with every variation of rent, is in effect a tax on rent; and as such a tax will not apply to that land which yields no rent, nor to the produce of that capital which is employed on the land with a view to profit merely, and which never pays rent, it will not in any way affect the price of raw produce, but will fall wholly on the landlords."*

Next issue: No.66, the 19th century Scottish philosopher and reformer, Patrick Dove.