

Chapter 2

David Ricardo: His Personality, His Times and His Principles

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Abstract This chapter introduces the reader to the life and the early work of David Ricardo. The first section gives a brief portrait of Ricardo as successful businessman, political economist and Member of Parliament. The second section elucidates Ricardo's emerging theory of international trade in the light of war, social distress and the Corn Laws. Finally, the third section traces the transition from Ricardo's early work to his main opus *On the Principles of Political Economy and Taxation*.

Whoever concerns themselves with David Ricardo's personality, his biography or his achievements is intrigued by the man, who is regarded as one of the key figures in the history of economic thought. Obviously, there have been some critical refutations of many of his theoretical considerations, a prominent example being the famous labor theory of value, which many would say should be relegated to a museum of economic theory. Yet on the other hand, there is the ingenuity and brilliance of his contribution to trade theory, a theory that stands firm as one of the great masterpieces in the history of economic thought and still serves as point of reference in the discipline of international trade theory. Moreover, the man who created the first (real) system of political economy not only pointed the way to modern economics with his methodological approach and his use of mathematical and tabular expression, but also created and shaped the field itself.

The man, who was able to do that, is presented in the first section of this chapter. Ricardo excelled in three different careers; we thus have a brief look at each of them. In the second section the focus lies on Ricardo's times; it shows in which circumstances his early theories developed. Mainly, we have a look at two important trade debates. The last section finally shows the transition to his main opus and most influential contribution *On the Principles of Political Economy and Taxation*.

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2.1 Life and Personality

Little in the matter was expected from young David, who was born as 1 of 17 children in London on April 18, 1772.¹ His father Abraham Israel Ricardo was a businessman—a stockbroker, who moved from Amsterdam to London around 1760. David Ricardo’s grandfather and uncles were likewise engaged in the financial market in Holland. It thus appears almost as a predefined path for him to commit his abilities and his strengths early on to the same branch of activity. Not much is known otherwise of those years as a boy and young teenager. Ricardo was sent at the age of 11 for educational purposes to Amsterdam. When he returned 2 years later, he soon started to work with his father at the London Stock Exchange. He had just turned 14.

Ricardo’s father, described by his brother Moses as, “a man of good intellect, but uncultivated” (Vol. X, p. 5),² allegedly put some early pressure on Ricardo. In a letter by Maria Edgeworth to her mother, she quotes Ricardo in these words:

My father gave me but little education. He thought reading, writing and arithmetic sufficient because he doomed me to be nothing but a man of business. (Colvin, 1971, p. 266)

Moses further talks about David Ricardo’s father as someone who based his opinions in religion, education or politics upon those of his forefathers without questioning or reassessing them (Vol. X, p. 5). The lack of education, at least as felt by Ricardo, and an uncritical contemplation of things were two constituent elements for Ricardo in his later life. The wavering doubts as to abilities, visible in his letters in the forefront of the publication of *On the Principles of Political Economy and Taxation* bear witness to feelings of vulnerability. They accompanied Ricardo throughout his life. These doubts, however, were mainly dedicated to the “arrangement” of his texts and the rhetorical aspects of his verbal expression. Uncritical—the other aspect of the father’s uncharming description—is surely a term that does not match with Ricardo’s almost rigorous methodological approach and his inner quest to find the true principles of political economy in the absence of dogma and tradition.

The truth concerning Ricardo’s education and his father might however be more differentiated than it seems to be at first glance. In the *Memoir* Moses declines the idea, supposedly around at the time, that Ricardo was of “very low origin” and “that

¹A more detailed account on David Ricardo’s biography can be found in the early sketches of his life by his brother, Moses Ricardo, from 1824 (Vol. X, pp. 1–13, see footnote 2), his acquaintance J. R. McCulloch (1825) or in the more recent biographies by Weatherall (1976) or Henderson and Davis (1997). Consult further Sraffa’s (Vol. X) biographical notes on Ricardo and King’s (2013) work on Ricardo’s life and work.

²Note that the main source of Ricardo’s writings is the eleven-volume edition of “The Works and Correspondence of David Ricardo” (edited by Piero Sraffa and Maurice Dobb). Throughout the text only the volume and the page are cited (for example: Vol. IV, p. 15). The selected quotations in the text should be attributable to the authors from the context.

he had been wholly denied the advantages of education.” (Vol. X, p. 4). Abraham Ricardo’s name stood not only “for honour and integrity” but was also “able and willing to afford his children all the advantages which the line of life for which they were destined appeared to require.” (ibid). The myth of educational deprivation, which was even put forward to a certain degree by Ricardo himself, is thus not entirely true. Ricardo may have lacked an academic background, unlike the other political economists of the day; nevertheless, he was born into a well-to-do family.

2.1.1 Ricardo as a Businessman

With his entrance into the business world, David Ricardo began the first of three careers at the age of 14. His father did not hesitate to “place great confidence” in Ricardo’s abilities, even equipping him with “such power as it is rarely granted to persons considerably older than himself.” (ibid). The true test not only of his capabilities in business but also of his character development was yet to come. The latent conflict with his father finally erupted when Ricardo turned 21. His love for and later marriage to Pricilla Ann Wilkinson, a Quaker, led to a break with his Sephardic Jewish heritage and ultimately with his mother and his father. Apparently his parents could not accept Ricardo’s chosen wife with her Christian beliefs. Thus as a very young man, he not only lost the support of his parents, but found himself suddenly standing on his own two feet as an independent businessman.

Yet Ricardo, having already shown aptitude, had managed to make a name for himself under his father’s care. For the first steps on his own, he received financial help from other members of the Exchange. From that point on, Ricardo’s path toward becoming one of the richest people in England opened up fast. In those early years he worked mainly as a stock jobber, an activity that ensured the liquidity of the market, due to the fact that jobbers were always ready to sell or buy their assets at a certain price. As Weatherall (1976) pointed out, the main quality of a nineteenth century jobber was good sense and a remarkably accurate anticipation of the fluctuations of the market. Because time was the crucial aspect in selling or buying an asset, this sense of the market divided a good jobber from a bad one. And Ricardo apparently was a very good one.

After his start as a jobber, Ricardo became a broker, and ultimately a contractor. The government needed to borrow money (loan) for their expenditures. Thus they issued various forms of financial securities. A contractor could bid for these securities. In order to do that he needed financiers willing to back him with the necessary amount of money. With this money the contractor could make a competitive bid against other contractors. This auction was enhanced by the Chancellor of the Exchequer. Once a contractor had won the competitive bidding, he sold these securities in smaller portions to minor investors and thus earned money. The art of bidding was to find the lowest price compared to that of competitors but one that was also acceptable to the bidder (see Vol. X, pp. 75–80).

Ricardo seemed to have the gift of calculating that price very convincingly. He won against other competitors in 1807 and for five consecutive years starting in 1811. The largest amount of money that Ricardo made as a contractor was in 1815 when the war between France and England reached its final stage. The bidding took place a few days before the Battle of Waterloo, which, because of its uncertain outcome, dragged prices down to a very low level. The news of Wellington's victory brought not only joy to English citizens but also "the largest single profit" (Vol. X, p. 83) made by Ricardo due to the rising prices of the purchased assets.

In his years in business David Ricardo showed a remarkable ability to make money. This is owing, as some quotes reveal, to his abstract, pragmatic and logical thinking. He did not particularly speculate, as Mallet wrote, and generally aimed to "realise a small percentage upon a large sum." (Higgs, 1921, p. 206). He was also rational enough to correctly perceive people's eagerness to over- or underestimate events and developing circumstances. Bowring, a fellow political economist, states that Ricardo observed "that people in general exaggerated the importance of events." (Vol. X, p. 73). And Moses talks not only about his brother's "quickness at figures and calculation" or "his coolness and judgment" but sees in Ricardo's gaining of tremendous wealth the area in which he best demonstrated his "extraordinary powers" (Vol. X, p. 6). Hollander explained Ricardo's achievements in the financial world later in these words:

(...) the most conspicuous fact was a remarkable degree of what might be described as mental disassociation. Ricardo was able to view—to the extent that no economist before or since has attained—a complex phenomenon, to single out therefrom one primary element and to trace its ultimate course free from the modifying or counteracting influence of opposed forces. (Hollander, 1911, pp. 74–75)

Part of this statement could easily be applied to Ricardo's second career, as it is what made him brilliant there as well.

2.1.2 Ricardo as a Political Economist

In 1799, David Ricardo experienced an impact that later developed into a crucial force, for it was personal tragedy that led Ricardo and his wife to Bath. Priscilla had given birth to a stillborn child and in their attempt to overcome the loss, they went to a sanitarium there. One day, when Ricardo was walking through the fashionable town, he must have entered a bookstore or a library. There he came upon a copy of Adam Smith's "Wealth of Nations". This first contact with Smith's monumental contribution marks the beginning of another major aspect of Ricardo's life—an aspect in which he would show as much talent and genius as in business—that of political economy.

Ricardo was to stay in business for another 16 years but his leisure was surely marked by a new all-consuming activity. After making a huge fortune in the aftermath of the Battle of Waterloo in 1815, Ricardo started to explore in depth the

new science of political economy. He bought an estate in Gloucestershire called Gatcombe Park and withdrew more and more from his activities on the Stock Exchange. Nonetheless, Ricardo managed to increase his fortune in those latter years through investments in some assets (e.g., French National securities and land). But he mainly devoted his time to political economy.

Some of his friends were worried that Ricardo might spend his time otherwise. A friend states in a letter with some irony: “So you have given up the Stock Exchange, and taken to farming” (Vol. VI, p. 149). Ricardo was quick to answer and admitted his enjoyment of the “calm repose of a country life” (Vol. VI, p. 150), describing himself as only sufficiently interested in the procedures of farming. What he was really doing though was working on his masterpiece, albeit with difficulty, as this letter from 1815 shows:

You observe justly that having friends staying with us unsettles our regular habits. I find it very materially to interfere with my pursuits. Reading or writing, when one has an object in view, should be followed systematically, and at no distant intervals, for after a time our thoughts are turned into new channels and we cannot easily recall the ideas which were only beginning to be indistinctly formed in our minds. (Vol. VI, pp. 315–316)

Another facet of Ricardo’s personality shines through this excerpt. Eventually becoming the father of three sons and five daughters, Ricardo was a very sociable person and had any number of guests and parties at Gatcombe. During these years he also kept a house in London at 56, Upper Brook Street and regularly stayed there for a few months at a time. Sometimes the weather in Gatcombe helped him concentrate, but the frequent presence of guests was not conducive to his work:

I have hitherto had little temptation to desert my work for the pleasure of walking or riding, as the weather has been almost uniformly bad—yet I have not been able wholly to seclude myself from morning intruders. (Vol. VII, p. 54)

Despite interruptions, most of his time in these years was spent thinking and writing about fundamental economic principles.

2.1.3 Ricardo as a Politician

As early as 1815, James Mill, an intimate friend of Ricardo’s, asked of him nothing more than his devotion to politics. “You now can have no excuse”, Mill writes in a letter “for not going into parliament, and doing what you can to improve the most imperfect instrument of government.” As a political economist Ricardo was, in Mill’s perception, a clear asset to parliament, which was generally, as depicted by Mill, in a poor state. Ricardo would therefore not only “have no match” and be “a very instructive” and “a very impressive speaker” on the subjects of political economy, but also be one of the rare politicians that stand firm on ethical and moral grounds. Mill writes: “I do question whether another man would be found in it (the parliament), not ready to sell his country” and attributes Ricardo as “thoroughly honest” and as somebody that would do nothing that is “not purely and

genuinely thought right.” (Vol. VI, p. 253). Thus began David Ricardo’s third career in 1819, when he became a member of parliament, i.e. a politician.³

Mr. Brougham, a fellow politician, saw in Ricardo someone who “had dropped from another planet.” (Vol. V, p. 56). Evidently his approach to solving the problems of the time was—given his background as a theorist—a bit different. It would though be wrong to reduce Ricardo to an “ultra-abstract economist”, who failed to offer practical and useful advice (Milgate & Stimson, 1991). Ricardo was of course talking in parliament about important economic policy questions; currency issues, taxation or governmental expenditure. He also addressed numerous other questions, on which he held a liberal view (the right to protest, religious tolerance). At the end of his political career (due to his early death) the perception of him changed. Brougham wrote later:

There was something about him, chiefly a want of all affectation as well as pretension in everything he said or did, that won the respect of every party. (...) Few men have, accordingly, had more weight in Parliament; certainly none who, (...), might be said generally to speak against the sense of the audience, ever commanded a more patient or more favourable hearing; and, as this was effected without any of the more ordinary powers of oratory or of entertainment possessed by others, it might be regarded as the triumph of reason, intelligence, and integrity over untoward circumstances and alien natures. (Vol. V, xxxii–xxxiv)

And Mallet, his friend, wrote about Ricardo as a politician:

Ricardo was a bold man; and he was bold because he reasoned thoroughly with himself, and carefully examined the opinions which he adopted. (...) His knowledge of mankind, and of political society was chiefly acquired in books, and wanted the test of experience; but although he was a thorough reformer, and an advocate for universal suffrage, and vote by ballot, no man was less of a revolutionist in principle: he was, on the contrary humane, considerate and just in all his views. (Higgs, 1921, pp. 209–210)

2.1.4 *Ricardo as a Person*

Throughout his whole life, Ricardo’s character was described as amiable. It is at least surprising that a man, who was not only tremendously successful in his different careers but who also took some firm stands against prevailing opinions or circumstances, attracted little real criticism. On the contrary, in one of the most famous (and rare) descriptions of his personality, Maria Edgeworth, wrote:

Mr. Ricardo, with a very composed manner, has a continual life of mind, and starts perpetually new game in conversation. I never argued or discussed a question with any person who argues more fairly or less for victory and more for truth. He gives full weight to every argument brought against him, and seems not to be on any side of the question for one instant longer than the conviction of his mind on that side. It seems indifferent to him

³A more detailed description of Ricardo’s political career can be found e.g.: Cannan (1894), Milgate and Stimson (1991), Gordon (1976).

whether you find the truth, or whether he finds it, provided it be found. (Vol. X, pp. 168–169)

And in his brother's *Memoir* there is a warm acknowledgment of Ricardo's integrity that expressed itself in his strong advocacy for general principles that often even harmed his own interests. Moses gives some examples:

When a Bank (of England) proprietor, he argued strenuously and warmly against the inordinate gains of that body; he defended the cause of the fund-holders when he had ceased to be one; he was accused of an attempt to ruin the landed interest after he became a large landed proprietor; and while a member of parliament, he advocated the cause of reform, which, if adopted, would have deprived him of his seat. (Vol. X, p. 13)

David Ricardo died in consequence of an ear infection at Gatcombe in 1823. He was only 51 years old.

2.2 Ricardo's Time and His Early Contributions

Ricardo's first contribution to the emerging science of political economy came to the public unknowingly. He wrote an anonymous letter to the *Morning Chronicle* in 1809, in which he discussed the depreciation of notes issued by the Bank of England (and private banks). Two letters followed after the topic had gained the attention of other writers; this time he signed his contributions simply with the letter R. His pamphlet in 1810, however, *The High Price of Bullion, a Proof of the Depreciation of Bank Notes* carried his name and brought him instant fame. The discussion's origins lay in the increasing threat to financial stability in Britain.

The war against Napoleon's France resulted in vast expenditure and substantially increased the national debt. When France declared war against England in 1793 the total national debt was around 234,035,716 pounds; 22 years later the debt had quadrupled to 834,252,726 pounds (Henderson & Davis, 1997, p. 196). This debt had to be financed. And after rumors of a French invasion of Britain led to a bank run, the government abolished the convertibility of bank notes to bullion (cash). The risk of the Bank of England going bankrupt was too high. The abolition of convertibility was later made permanent by the Bank Restriction Act of 1797. The debt could thus be financed by a rising money supply through issuing new bank notes. Indeed, the note circulation in England expanded from 10–11 million in 1795 to around 20 million in 1808 (Inglis Palgrave, 1901, p. 191). Furthermore, inflation and the disruption in foreign exchange rates were pressing on the British economy (Henderson & Davis, 1997, p. 197). Ricardo suspected the Bank of England of exploiting the Act and thus of being harmful to the economy. Ricardo's writings in these years, as Weatherall (1976) suggests, were one of the reasons that led finally to the appointment of a Select Committee in the House of Commons.

This Committee had the task of further examining the matter and proposing suitable policy measures. They soon published their *Bullion Report* and Ricardo his second pamphlet *A Reply to Mr. Bosanquet's Practical Observations of the Report*

of the *Bullion Committee*. For the first time, the young businessman, provocatively called “a philosopher who writes in the Chronicle” (Weatherall, 1976, p. 58), showed early hints of his future status and influence. The Bank Restriction Act was finally repealed by parliament in 1819. The plan to do so originated from the appendix of the fourth edition of Ricardo’s first pamphlet, and was given the name “Mr. Ricardo’s Plan”.

Ricardo’s strength in theorizing and in abstract reasoning can already be seen in these first publications. Although he was familiar with currency and monetary issues through his daily work—“he knew the facts” (Mitchell, 1967, p. 269)—he broached the topic in his pamphlet with a far-fetched generalization, namely with “what he (Ricardo) calls the laws that regulate the distribution of precious metals throughout the world.” (ibid.) But Ricardo was not, as the quote above suggests, “a philosopher” in an ivory tower, but a man who used generalizations in order to overcome “temporary” and non-lasting effects and circumstances. Attention to facts alone, as Ricardo wrote programmatically in his second pamphlet, does not suffice, when no theory is attached to it. Men without theory “can hardly ever sift their facts. They are credulous, and necessarily so, because they have no standard of reference.” (Vol. III, p. 181). For some, Ricardo went too far in his abstract thinking. Some fame can be linked with the term “Ricardian Vice”, attributed to Ricardo’s method by Joseph Schumpeter. Schumpeter described Ricardo’s theoretical approach critically:

(...) he cut that general system to pieces, bundled up as large parts of it as possible, and put them in cold storage—so that as many things as possible should be frozen and ‘given’. He then piled one simplifying assumption upon another until, having really settled everything by these assumption, (...) he set up simple one-way relations so that, in the end, the desired results emerged almost as tautologies. (Schumpeter, 1955, pp. 472–473)

After the Bullion Controversy, David Ricardo’s attention shifted to another topic that was no less acute in England. Again the “theorist” attached his thoughts to a genuinely practical question. As Hollander (1910, p. 58) put it in a broader perspective, Ricardo’s writings and correspondence were “in no small degree a reflex of the stirring economic events of the period”. Or as Hartwell (1971, p. 7) said, “Ricardo’s writing is a good chronological guide to Britain’s economic problems”.

2.2.1 Agriculture as the Source of National Wealth and Eighteenth Century Rule

Agriculture and foreign trade was an issue in England in the early years of the eighteenth century, even before the famous Corn Law debate evolved. Ricardo was occupied with his financial matters when a highly controversial pamphlet circulated in England. After Napoleon enforced the Continental Blockade in order to restrict and even cut off English trade, the British intelligentsia must certainly have felt the

appeal of theories developed by a group of French economists around Mirabeau, Quesnay or Turgot. But in the end it was William Spence, an entomologist, who was tempted to adopt their theory and popularize their teachings in England. In his pamphlet *Britain Independent of Commerce* Spence tried to establish the physiocratic view that agriculture is the only source of wealth to a nation. A convenient theory for a truncated island! According to its claims, all other economic activities, e.g. manufacture or commerce (trade), cannot increase national wealth.

The reason lies in a particular idea attributed to agricultural production. Only there does *nature* add a surplus product to the work of men, which farmers pay to the landowner in the form of a rent. This product creates value and thus enriches the country. All other professions and industries alter given values, but do not create them. A carpenter, for example, needs raw material for production, as well as a sufficient level of food, etc. for him to produce a table. The value of this table corresponds in the end to the first two ingredients and thus no value has been created. William Spence also saw in foreign trade only a transformation but not a creation of value. It is mostly a zero-sum game and a transaction of equalities. Furthermore he even sees in the recourse to old mercantile ideas a disadvantage in foreign trade for England. Whereas British exports are mostly durable and solid goods (machines, clothes, etc.), imports comprise mostly luxury goods (tobacco, wine, sugar) and are widely used and thus do not have much value for the future from a “national point of view” (Spence, 1807, p. 50).

Although he adjusts the theory slightly to British circumstances, he sticks with the main assumptions of the French economists. It is agriculture alone that contributes to the wealth of a nation. The surplus, paid as rent, is the source of value creation. These few terms; *agriculture*, *value*, *rent* or *trade* will become the major theme of Ricardo’s second appearance as a political economist. Yet some other theorists had first to reply to Spence’s publication. There were about 30 responses in all, whereby two particular pamphlets were relevant for Ricardo’s future. One was by James Mill (*Commerce Defended*) and the other one by Robert Torrens (*The Economists Refuted*). The former almost certainly fell into the hands of Ricardo, who, as an interested reader, soon tried to meet with the author. That meeting is assumed to have led to the closeness and lifelong friendship between James Mill and David Ricardo (Mitchell, 1949, p. 132). Of course both authors reject Spence’s and the French economists’ doctrine of agricultural superiority and their obscure perspectives on value.

However, and most importantly, they tried to defend the true value of foreign trade. Both authors argue in a setting which was later named by Viner the “eighteenth-century rule”, a name given after the discovery of the concept in an anonymous work from 1701 (Viner, 1937, p. 104). Viner described the rule in these words:

(...) the rule, namely, that it pays to import commodities from abroad whenever they can be obtained in exchange for exports at a smaller real cost than their production at home would entail. (Viner, 1937, p. 440)

In recourse to Adam Smith, James Mill understands commerce to be “an extension of that division of labour” that ultimately brings “so many benefits (...) upon the human race.” (Mill, 1808, p. 38). Because of that process labor in different countries will move to its most productive areas. In Mill’s fundamental statement, he says:

(...) the sole question is, whether a particular description of wants can be most cheaply supplied at home or abroad. If a certain number of manufacturers employed at home can, while they are consuming 100 quarters of corn, fabricate a quantity of goods, which goods will purchase abroad a portion of supply to some of the luxurious wants to the community which it would have required the consumption of 150 quarters at home to produce; in this case too the country is 50 quarters the richer for the importation. It has the same supply of luxuries for 50 quarters of corn less, than if that supply had been prepared at home. (Mill, 1808, p. 38)

Torrens argues also in line with the division of labor argument. He differentiates the idea into territorial and geographical divisions and introduces the term of a “territorial division of labour” (Torrens, 1808, p. 14). In Torrens’ main statement he points out the possible gains from trade:

Thus, if I wish to know the extent of the advantage which arises to England, from her giving France a hundred pounds’ worth of broad cloth in exchange for a hundred pounds’ worth of lace, I take the quantity of lace which England has acquired by this transaction, and compare it with the quantity which she might, at the same expense of labour and capital, have acquired by manufacturing it at home. The lace that remains, beyond what the labour and capital employed on the cloth might have fabricated at home, is the amount of the advantage which England derives from the exchange. (Torrens, 1808, p. 53)

Both authors tried to defend trade by showing how the possible gains of trade arise from it. Their main statement might be summarized thus: it is advantageous for a country to shift its resources to a productive industry. These goods will then be shipped and sold in foreign countries. In return for them, England can import a good formerly produced at home, at lower costs than the domestic production costs. Clearly, they recognize the notion of “indirect production” from which the gains from trade arise. This is not yet the famous principle of comparative advantage, but the reader may well guess why there is, according to Viner (1937, p. 441), only “a sole addition of consequence” necessary to arrive at Ricardo’s ingenious principle (See Chaps. 3 and 9 in this book).

2.2.2 Increasing Prices and Distress

The war and the blockade against England not only shook the foundations of the importance of trade in its entirety; it also led to a much more influential discussion of the required restrictions of trade. This time David Ricardo was one of the central figures in the discussion. The political economists of that day had to pay attention to the dramatic price increase of corn. The burden of a high price was felt first and foremost by the working class, who had difficulty paying for a sufficient amount of

bread, wheat and so on. This led ultimately to a rising tension in society, which expressed itself in violent clashes and riots.⁴

Society and the economy in England were in a time of upheaval, facing new problems and challenges. The growing amount of manufactured goods, slowly heralding the coming period of industrialization, and the migration from more rural areas to the cities (especially London) or the ongoing urbanization, increasingly undermined the long-lasting dominance of landowners and landlords. England was—as we would say 200 years later—on the verge of becoming a modern industrialized state in the beginning of the nineteenth century. But the most dramatic change was recognized in population growth. The population growth rates were at a very low and constant annual level of around 0.46% for almost half a century before 1780. After 1780, the rate went up to nearly 10% per decade and ultimately reached a peak in Ricardo's most active period as a political scientist, between 1811 and 1821. The population growth rate in these 10 years lay at around 17% (Mathias, 1983, pp. 166–167).

Thomas Robert Malthus, who became one of Ricardo's dearest friends and stimulating conversation partners, had published *An Essay on the Principle of Population* in 1798. In that pamphlet, Malthus, alarmed by the increasing population growth, expressed a gloomy perspective on the future development of society. He depicted a future of epidemics, wars and famine, so-called “positive checks” triggered by uncontrolled population growth. This growth rate of the population would “when unchecked increase in a geometrical ratio.” The level of subsistence would rise, however, only in “an arithmetical ratio.” (Malthus 1798 (1909), p. 7). The cultivation of new land or the technological improvements to increase agricultural production thus would not suffice. This hypothesis cast a shadow over a previously optimistic view of the natural progress of society and brought with it the notion of economics as a dismal science. Ricardo would later share this pessimistic view.

Indeed one might have been able to recognize in the early decades of the nineteenth century some evidence for these assumptions. The population grew fast and the price of grain rose year after year and thus brought the poorer classes to the absolute limits of their own subsistence (Table 2.1).

The rising demand due to an increasing population was however not the only rationale for high prices. The high costs caused by the restriction of trade due to the blockade and the distortion of the currency also played a role. To make matters even worse, England was hit by a few very bad harvests that in the early years of the nineteenth century reduced the supply and increased the prices as well. All of these elements, including “the improved knowledge of agriculture” and “the enclosure of common-fields” further magnified another important economic factor: rent (Thompson, 1907, p. 589).

⁴See for example or Stevenson (1974) or Booth (1977).

Table 2.1 Average price of a quarter of wheat (Cannan, 1903, p. 149)

Years	Average prices of a quarter of wheat
1711–1794	45s. (price never above 60s and 5¼ d.)
1780–1789	45s. 9d.
1790–1799	55s. 11d.
1800–1809	82s. 2d.
1810–1813	106s. 2d.

2.2.3 Corn Law Debate

Political economists at that time were mostly engaged with economic theory, when there was some policy measure or some legislative action involved, an element of additional current importance. This additional ingredient was the Corn Law debate. England became, as the negative trade balance of corn suggests, a regular importer of corn or other grains from foreign countries from 1770 onward (Turner, 1986, p. 113). Since 1791, and driven by the interests of the land-owning class, England had introduced a duty on the importation of foreign wheat. Whenever the domestic price of corn fell below a certain threshold, an additional tariff was slapped on foreign producers' prices. Due to the price increase of corn, this threshold was raised in 1804 and another attempt was made in 1813 (when due to unusually good harvest the price of corn temporarily fell) to increase it to an even higher level.

In 1813 Parliament decided to instruct a committee with the objective of suggesting an appropriate policy measure (i.e., the appropriate price level). Their findings were—and it should not be surprising, when the composition of parliament is considered—indeed in favor of more restrictive terms in foreign trade, that is, of an increment in the threshold.⁵ The discussions in political and intellectual circles in London must have been greatly affected by the discussions and thoughts of the committee. Evidence for this is the series of pamphlets (once again) that were published at the beginning of 1815. Malthus published *An Inquiry into the Nature and Progress of Rent and Grounds of an Opinion*. West's *An Essay on the Application of Capital* together with Torrens' *An Essay on the External Corn Trade* followed.

Although David Ricardo had been occupied by a slightly different topic, he was able to publish his *An Essay on the Influence of a Low Price of Corn on the Profits of Stock* (Essay on Profit) after he had read Malthus' pamphlet within just a few days. The issue at stake was a topic that had originated with Smith, who stated that capital accumulation was accompanied by a fall in the rate of profit. Evidently this was not the case; both numbers had been rising since 1793 (Meek, 1976, p. 89). But as Sraffa noted, these topics all had for Ricardo an inner relation to each other or as Sraffa expressed it:

⁵Behind this imposition was also the idea that it would stimulate agricultural production and thus lead to more cultivation and a greater domestic supply. The idea of self-sufficiency does not, in the light of the long war and blockade, seem entirely unreasonable.

(...) by using his already developed theory of profits, incorporating Malthus's theory of rent, and adding a refutation of the protectionists' arguments put forward by Malthus in his *Grounds of Opinion*. (Vol. IV, p. 4)

All of these pamphlets had some striking similarities,⁶ despite the fact that they were mostly independent of each other. It is probably one of the rare occasions where a "multiple discovery" is so much in evidence.⁷ All of these pamphlets entailed, among other ideas, a conception of rent and all of them pushed the notion of diminishing returns into a prominent light. Concerning rent, Ricardo took his general ideas from Malthus, to whom he referred prominently in his essay. He also follows Malthus' premise of different rates in the population and in subsistence; indeed, diminishing returns is an expression of the slow(er) rate of the amount of agricultural produce.

2.2.4 Ricardian Rent Theory

Ricardo exemplifies the theory—which is generically called "Ricardian Rent Theory"—with settlers who arrive on new land. The first settlers will settle on rich and fertile land. They will receive, after they subtract the outgoings connected with cultivation, an amount that belongs fully to the owner of the capital and thus consists in its entirety of profits of capital. The settler or farmer in this example is thus also the capitalist. The population might increase and the demand for agricultural produce rise. New settlers will arrive to produce more corn. But, they either have to go to land of inferior quality or to land that is far away from the marketplace. In both cases the farmer needs more capital to yield the same amount of produce. This leads ultimately to a decreasing rate of profit. The farmer on the last productive field needing the highest amount of capital to produce determines the general profit of capital; in the words of Ricardo: "(the rate of profit is) regulated by the profits made on the least profitable employment of capital on agriculture" (Vol. IV, p. 13).

Rent is now most importantly not a "new creation of revenue, but always part of a revenue already created." (Vol. IV, p. 18). Between rent and profit there is an inverse relationship. Whereas the rate of profit decreases, the rent increases. Ricardo shows this theory by the "clearest model that he ever produced" (King, 2013, p. 61) and by a sophisticated tabular expression of his idea (an excerpt of the original depiction is shown in table 2.2).

For simplicity we shall just look at the case of two different qualities of land to show this relationship: In the second line 210 quarters of wheat are used as advanced capital for agricultural production (10 more than in the best suited land). The net produce, or in other words the output minus the outgoings

⁶See for example (Blaug, 1958, pp. 6–7).

⁷In the words of Mitchell: "(...) is an interesting example of how, when times are ripe, intellectual discovery seems to occur to different minds at about the same time." (Mitchell, 1967, p. 283).

Table 2.2 Excerpt of Ricardo’s original table (Vol. IV, p. 17)

Capital estimated in quarters of wheat	Profit per cent	Neat produce in quarters of wheat after paying the cost of production on each capital	Profit of the 1st portion of land in quarters of wheat	Rent of the 1st portion of land in quarters of wheat	Profit of the 2d portion of land in quarters of wheat	Rent of the 2d portion of land in quarters of wheat	Profit of the 3d portion of land in quarters of wheat	Rent of the 3d portion of land in quarters of wheat	Profit of the 4d portion of land in quarters of wheat	Rent of the 4d portion of land in quarters of wheat
200	50	100	100	None						
210	43	90	86	14	90	None				
220	36	80	72	28	76	14	80	None		
230	30	70	60	40	63	27	66	14	70	None

(wages, etc.) is 90 measured in quarters of wheat (whole produce is still 300 (300–210 = 90)). The rate of profit is thus:

$$\frac{90}{210} = 43\% \quad (2.1)$$

Before this second section of land was cultivated the rate of profit on the first was 50%. Because the last productive land determines the general rate of profit at 43%, the difference now has to lie in the appearance of a rent. Therefore, the new situation for the farmer on the first section of land is: instead of a profit of 100 quarters of wheat, he will only get 86 quarters; 14 quarters will have to be paid as rent. Table 2.2 is dynamic, in so far as every cultivation of new land adds a new column to the right. The division between profit and rent appears natural or as Ricardo puts it as evident:

And that such a division must take place is evident, when we consider that the owner of the capital of the value of two hundred and ten quarters of wheat would obtain precisely the same profit, whether he cultivated the distant land, or paid the first settler fourteen quarters for rent. (Vol. IV, p. 13)

Ricardo showed by the tabular expression and his corresponding explanation that at least in agricultural production Smith was right with his hypothesis of a decreasing rate of profit with an increasing capital accumulation. Ricardo was, as it seems, almost astonished himself by this discovery. He says:

This is a view of the effects of accumulation which is exceedingly curious, and has, I believe, never before been noticed. (Vol. IV, p. 16)

And so, according to Ricardo, “there are hardly no limits to the rise of rent, and the fall of profit.” (Vol. IV, p. 14).

Ricardo then turns his attention to the price of corn and sees its rise as something that can “naturally be expected under such circumstances.” (Vol. IV, p. 19). As we have seen, the high price of corn was a clear fact at that time and led to much distress and even riots in England. The price or in the terms of Ricardo, the exchangeable value of a good, here of corn, is determined by the “difficulties in the production”. It is obvious that more intensive or more extended agriculture increases the cost of obtaining food and thus leads to the high price of corn and to a high rent. Note here again that it is not the high rent that leads to a high price, but a high price that consists of a high rent.

2.2.5 *Classes, Distribution and Trade*

The next step for Ricardo is to think about the distributional effects of the high price of corn. And quite clearly, a high price of corn and high rent is in the greatest interest of the landlords. The famous dictum, thus, is:

It follows then, that the interest of the landlord is always opposed to the interest of every other class in the community. (Vol. IV, p. 21)

The other classes are harmed by the high prices. The capitalist is punished two-fold by the rise of the rent: firstly, his rate of profit decreases as a consequence of the increased rent and, secondly, due to the common assumption of the time that the cost of corn determines the wage of the laborers. The wage of the working class had to meet their subsistence level. If the price of corn rose, the capitalist consequently had higher expenses and again his profits suffered. Especially the rising numbers of manufacturers were frightened by the prospect of higher production costs and a competitive disadvantage against foreign competitors.

With Ricardo's view of society as divisible into distinct classes, the conceptual framework in economic theory changed. There is a struggle between these classes, there are strong interests opposing each other and there are current problems of distributional matters that slow economic development in England. It is thus programmatic when Ricardo expresses his fundamental approach to economics in the first lines of the *Principles of Political Economy and Taxation* (*Principles*):

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, will be essentially different; (...) To determine the laws which regulate this distribution is the principal problem in Political Economy. (Vol. I, p. 5)

In the world of Adam Smith economic growth was regarded as something univocally good for all; now, with Ricardo, the classes are seen to conflict in their interests and in constant competition.

The economy is in a state of distress due to the high price of corn. Ricardo sees in his *Essay on Profit* three possible solutions to reducing the price. Apart from a general fall in real wages, they are “improvements in agriculture or implements in husbandry” or “the discovery of new markets, from whence corn may be imported at a cheaper price than it can be grown at home.” (Vol. IV, p. 22). With the latter the possible role of foreign trade in the issue is set; the importation of corn—as long as the foreign corn is cheaper—sets a new level of domestic production. Cultivated land on inferior soil will therefore be relinquished and the least productive farmers will no longer have an economic basis to sustain production. A more productive farmer, compared with the previous situation, will now be at the margin and determine the rate of profits. Undoubtedly, with the lower price of corn, the rate of profit will increase, whereas rent will decrease.

In view of the political debate surrounding the Corn Law controversy it is thus only consistent when Ricardo writes as his policy recommendation:

If we were left to ourselves, unfettered by legislative enactments, we should gradually withdraw our capital from the cultivation of such lands, and import the produce which is at present raised upon them. The capital withdrawn would be employed in the manufacture of such commodities as would be exported in return for corn. (Vol. IV, p. 32)

Unrestricted trade in corn is absolutely necessary in Ricardo's system. Due to an increased rate of profit, capitalists have incentives to put their money into more productive areas and hence contribute to the progress of the economy. Restricting trade in corn is for Ricardo the same as not using the steam-engine or a perfected cotton-machine. He asks therefore: "Would it be wise at a great expense to use some of the worst machines, when at a less expense we could hire the very best from our neighbours?" (Vol. IV, p. 34).

In an atmosphere of war and trade blockades, Ricardo argued for stronger economic relationships with other countries. The often-used argument of England's strong dependence on other countries through importing corn was opposed by Ricardo along simple theoretical lines. Once England was established as an importing country, the other countries would invest their capital in agriculture and thus be liable partners. The slowness of adjustment in the different branches of an economy would leave time for England to adjust as well. These dynamics play a role in the earlier conception of Ricardo's system. He would even give farmers of the least productive fields, who would be the losers if tariff abolition occurred, some time (3 or 4 years) before they would have to adjust. But in the end the most important thing is that the losses of the losers will be replaced by a gain "many times the amount of their losses" (Vol. IV, p. 33) in order to justify that kind of policy. The few important ones at that time—the landed class—have in Ricardo's system no longer the right to rule against the interests of others—even if Ricardo himself belonged to it. Malthus noted:

It is somewhat singular that Mr. Ricardo, a considerable receiver of rents, should have so much underrated their national importance; while I, who never received, nor expect to receive any; should probably be accused of overrating their importance. Our different opinions, under these circumstances, may serve at least to show our mutual sincerity, and afford a strong presumption, that to whatever bias our minds may have been subjected in the doctrines we have laid down, it has not been that, against which perhaps it is most difficult to guard, the insensible bias of situation and interest. (Malthus 1820 (1922), pp. 216–217)

2.3 Ricardo's Principles

Great thinkers sometimes seem not only to have incredible talent but are also endowed with an exorbitant amount of self-confidence. This was definitely not true for David Ricardo. He was successful in almost every branch in which he was active. He made a fortune as a businessman, achieved with his first pamphlets wide recognition and acclaim, lived in Gatcombe, one of the most beautiful spots in England, and was on friendly terms with the other great political economists. Yet he reacted reluctantly, when James Mill, his loyal friend, asked him to write a prolonged and elaborated version of the *Essay on Profits*. "I fear", Ricardo wrote in a letter, "the undertaking exceeds my powers." (Vol. VI, p. 249).

Jeremy Bentham once wrote: “I was the spiritual father of Mill, and Mill the spiritual father of Ricardo” (Bain, 1882, p. 74), and indeed James Mill was in the 2 years between the publication of the *Essay on Profits* and the *Principles* a constant and enduring friend at Ricardo’s side. Ricardo, himself, was full of doubt and reluctance to write the *Principles*. In one letter, he almost shouts out in despair: “Oh that I were capable of writing a book.” (Vol. VI, p. 314).

2.3.1 *Malthus and the Labor Theory of Value*

It was an inner desire, due presumably to the everlasting differences in opinion with Malthus, that led Ricardo to finally overcome his doubts (rather than possible fame and glory). In the same letter Ricardo wrote about how much he differed with Malthus and described an “astonishing mixture of truth and error” in Malthus’ opinions “on the subject of rent profit and wages” (ibid). For Ricardo, who never doubted his logical reasoning and aimed to find the correct principles, this seems to have been incentive enough.

Whereas the correspondence between Ricardo and Mill was mostly about personal matters and, as we shall see, matters of encouragement and support, the letters between Ricardo and Malthus were almost fully dedicated to the discussion of political economy. The one time when Ricardo expressed his problems in writing, Malthus replied to Ricardo:

I cannot help thinking that the reason why with your clear head, you find a difficulty in your progress is that you are got a little into a wrong track. On the subject of determining all prices by labour, and excluding capital from the operation of the great principle of supply and demand, I think you must have swerved a little from the right course. But on this point of course you differ from me. (Vol. VII, p. 7)

Malthus’ critique touches the core of Ricardo’s thoughts in the years before the *Principles*. And it also anticipates one major line of attack and critique from subsequent writers of political economy. Concerning a theory of value, the *Essay on Profits* already entailed some aspects of the emergence of one of Ricardo’s most disputed theories. Yet, he needed some further thoughts to develop it fully for the *Principles*. Piero Sraffa, the editor of the monumental edition *The Works and Correspondence of David Ricardo* provided especially for the *Essay* an interpretation that is not undisputed but surely a point of reference. In the introduction to the edition he tries to give the “rational foundation” (Vol. I, xxxi) of Ricardo’s dictum “it is the profits of the farmer that regulate the profits of all other trades.” As we have seen, the importance of a free trade in corn lies in its effects on all other trades and industries. But why is that the case after all?

To Sraffa this is given by the corn model. In agricultural production “corn” works as the input factor (capital in the agricultural production is thus fully given by the wages of the laborers) and as the output factor. There is thus no problem of valuation in this production; the quantities that were put into production and the

quantities that come out of the production matter and can thus directly determine the ratio of profit. Sraffa now concludes that because this production consists of the same commodity “no value change can alter the ratio of product to capital”. It is thus the case, that rate of profit in the production of other commodities, in which there is not identity between input and output, have to adjust. In Sraffa’s interpretation the rate of profit is therefore of high importance. Others, for example, Peach, have criticized this interpretation. He simply sees in the output of agricultural production the wage good. By an increased exchangeable value of corn, the production cost (the capital) rises, and hence leads to a smaller rate of profit (Peach, 1998, p. 599).

In writing the *Principles*, Ricardo needed a more profound theory that did not determine the rate of profit only “through the microcosm of one special branch of production.” (Vol. I, xxxii). He found in his more general approach to the problem of value in labor the ultimate solution. Ricardo substituted “Labour for Corn as the quantity in terms of which product, wages and surplus were alike expressed.” (Dobb, 1973, p. 74). Not corn, but labor could be found now on either side of the production process. Ricardo managed therefore to distance himself from the simplifying assumption that corn is the only good entailed in the wages. Thus, as Sraffa wrote:

(...) the rate of profits was no longer determined by the ratio of the corn produced to the corn used up in production, but instead, by the ratio of the total labour of the country to the labour required to produce the necessities for that labour. (Vol. I, p. xxxii)

Thus the labor theory of value emerged and its explanation was the first and longest chapter in the *Principles*. The object of inquiry is the exchangeable value of a commodity that entails as a prerequisite usefulness and can be fabricated and replicated by labor. The value-in-exchange of a commodity—the question thus how much of a good shall be given for another—depends “almost exclusively on the comparative quantity of labour expended on each.” (Vol. I, p. 12). Ricardo describes this principle as “a doctrine of the utmost importance in political economy.” (Vol. I, p. 13). It follows that if a commodity can be produced more efficiently due to an innovation, its relative amount of labor falls comparatively to the other goods and it thus becomes less expensive. The same is true when the difficulties of production increase; then, the commodity becomes more expensive and will cost relatively more compared to the other commodities.

Starting from a rural society—as Smith does—the hunter example with the deer and the beaver and their different difficulties in hunting resulting in their relative exchangeable value seems straightforward. But the economy changed and the reality in English industry showed that labor in its purest form cannot suffice. There is thus also an idea of capital involved, which is, in Ricardo’s conception, bestowed labor. He distinguishes this further in circulating and fixed capital. The circulating capital is used in fixed proportions to labor. Whenever the amount of labor used in production is known, the amount of circulating capital is given as well. Fixed capital is not proportional to labor; more importantly it can be substituted for by labor. A rising wage now has different effects. Whenever there is only

circulating capital in the production of a good, the price of the commodity will increase. With fixed capital the effect can—through substitution—even fall. The factor land, however, is excluded in Ricardo’s labor theory of value.

2.3.2 *Mill and His Encouragement*

Whereas the labor theory of value completed Ricardo’s “system” and therefore made it possible to write the *Principles*, it was James Mill who remains a central figure in the development of the *Principles*. But unlike Malthus, he could not sharpen Ricardo’s theory through objections or stimulating ideas. It was his encouragement, his inexhaustible persuasion and his faith in Ricardo’s strengths that were so important. He therefore wrote to Ricardo with almost pathetic encouragements:

When I am satisfied, however, that you can not only acquire that 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. (Vol. VI, p. 252)

Or at the end, when Ricardo sent him the first chapters of the book, still unsure whether it should be published at all, Mill wrote to him:

Your doctrines are original, and profound, for it was by no means an easy matter to get down to them; and I have no hesitation whatsoever in saying that they are fully and completely made out. I embrace them against all the world. (Vol. VII, p. 106)

The relationship between Mill and Ricardo is probably best described by his son. John Stuart Mill would become one of the last great economists in the classical era. Interestingly he, could have learned his craft from the masters. He describes Ricardo as “very attractive to young persons” and talks about the invitation to Ricardo’s house and the walks with him in order “to converse on the subject (of political economy).” (J. S. Mill 1873 (2009), p. 54). Concerning the relationship between his father and Ricardo and the emergence of the book, he said:

His loved and intimate friend, Ricardo, had shortly before published the book which formed so great an epoch in political economy; a book which would never have been published or written, but for the entreaty and strong encouragement of my father; for Ricardo, the most modest of men, though firmly convinced of the truth of his doctrines deemed himself so little capable of doing them justice in exposition and expression, that he shrank from the idea of publicity. (J. S. Mill 1873 (2009) pp. 29–30)

On the 19th of April 1817 *The Principles of Political Economy and Taxation* was published in London by John Murray. “The success which followed amply compensated him;” writes Moses Ricardo in the *Memoir*. “And this book” he continues “upon a subject which had heretofore not been popular, in a very short time passed

through three editions [1819, 1821], and placed the author in the highest rank as a philosophical writer.” (Vol. X, pp. 10–11).

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