

David Ricardo

(1772-1823)

In most history of thought books, David Ricardo is seen as the successor of Adam Smith, the preeminent British economist of the era. A stockbroker by trade, he produced economic writing that was highly abstract and often difficult to follow. But that very abstraction made his writing seem insightful, and it cleared up a number of questions that had vexed economists. Ricardo is most famous for his theory of rent, which provided the basis, later, for the marginal productivity theory of neoclassical writers. Interestingly, the limitation on land that existed in England was not the case in the United States because in the United States land was relatively free in the West.

This selection gives you a good sense of Ricardo's writing. It is one of the earliest clear statements of what rent is and of how the marginal product of land will determine the price of land, providing rent to all other users.

As you read this selection, it will be useful to remember that the symbol £ denotes a unit of English money (like the U.S. \$). Also, he discusses "corn," by which term the English mean grain, in terms of a unit of measurement, the "quarter." We have substituted the word "measure" for "quarter" rather than go through all the calculations to translate this into a specific term current readers would quickly grasp (one quarter = 8 bushels; one bushel = 2150.4 cubic inches, and on and on).

David Ricardo. 1817. *Principles of Political Economy and Taxation*. London: J. Murray.

Rent

Rent is 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. It is often, however, confounded with the interest and profit of capital, and, in popular language, the term is applied to whatever is annually paid by a farmer to his landlord. If, of two adjoining farms of the same extent, and of the same natural fertility, one had all the conveniences of farming buildings, and, besides, were properly drained and manured, and advantageously divided into hedges, fences, and walls, while the other had none of these advantages, more remuneration would naturally be paid for the use of one, than for the use of the other; yet in both cases the remuneration would be called rent. But it is evident, that a portion only of the money annually to be paid for the improved farm, would be given for the original and indestructible powers of the soil; the other portion would be paid for the use of the capital which had been employed in ameliorating the quality of the land, and in erecting such buildings as were necessary to secure and preserve the produce. Adam Smith sometimes speaks of rent, in the strict sense to which I am desirous of confining it, but more often in the popular sense in which the term is usually employed. He tells us, that the demand for timber, and its consequent high price, in the more southern countries of Europe caused a rent to be paid for forests in Norway, which could before afford no rent. Is it not, however, evident, that the person who paid what he thus calls rent, paid it in consideration of the valuable commodity which was then standing on the land, and that he actually repaid himself with a profit, by the sale of the timber? If indeed, after the timber was removed, any compensation were paid to the landlord for the use of the land, for the purpose of growing timber or any other produce, with a view to future demand such compensation might justly be called rent, because it would be paid for the productive powers of the land; but in the case stated by Adam Smith, the compensation was paid for the liberty of removing and selling the timber, and not for the liberty of growing it.

On the first settling of a country, in which there is an abundance of fertile land, a very small proportion of which is required to be cultivated for the support of the actual population, or indeed can be cultivated with the capital which the population can command, there will be no rent; for

no one would pay for the use of land, when there was an abundant quantity not yet appropriated, and, therefore, at the disposal of whosoever might choose to cultivate it.

If all land had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation. It is only, then, because land is not unlimited in quantity and uniform in quality, and because in the progress of population, land of an inferior quality, or less advantageously situated, is called into cultivation, that rent is ever paid for the use of it. When in the progress of society, land of the second degree of fertility is taken into cultivation, rent immediately commences on that of the first quality, and the amount of that rent will depend on the difference in the quality of those two portions of land.

When land of the third quality is taken into cultivation, rent immediately commences on the second, and it is regulated as before, by the difference in their productive powers. At the same time, the rent of the first quality will rise, for that must always be above the rent of the second, by the difference between the produce which they yield with a given quantity of capital and labor. With every step in the progress of population, which shall oblige a country to have recourse to land of a worse quality, to enable it to raise its supply of food—rent, on all the more fertile land, will rise.

Thus suppose land—No. 1, 2, 3—to yield with an equal employment of capital and labor, a net produce of 100, 90, and 80 [measures] of corn. In a new country, where there is an abundance of fertile land compared with the population, and where therefore it is only necessary to cultivate No. 1, the whole net produce will belong to the cultivator, and will be the profits of the stocks which he advances. As soon as population had so far increased as to make it necessary to cultivate No. 2, from which 90 [measures] only can be obtained after supporting the laborers, rent would commence on No. 1; for either there must be two rates of profit on agricultural capital, or 10 [measures], or the value of 10 [measures] must be withdrawn from the produce of No. 1, for some other purpose. Whether the proprietor of the land, or any other person, cultivated No. 1, these 10 [measures] would equally constitute rent; for the cultivator of No. 2 would get the same result with his capital, whether he cultivated No. 1, paying 10 [measures] for rent, or continued to cultivate No. 2, paying no rent. In the same manner it might be shown that when No. 3 is brought into cultivation, the rent of No. 2 must be 10 [measures], or the value of 10 [measures], whilst the rent of No. 1 would rise to 20 [measures]; for the cultivator of No. 3 would have the same profits whether he paid 20 [measures] for the rent of No. 1, 10 [measures] for the rent of No. 2, or cultivated No. 3 free of all rent.

It often, and, indeed commonly happens, that before No. 2, 3, 4, or 5, or the inferior lands are cultivated, capital can be employed more productively on those lands which are already in cultivation. It may perhaps be found, that by doubling the original capital employed on No. 1, though the produce will not be doubled—will not be increased by 100 [measures], it may be increased by 85 [measures]—and that this quantity exceeds what could be obtained by employing the same capital, on land No. 3.

In such case, capital will be preferably employed on the old land, and will equally create a rent; for rent is always the difference between the produce obtained by the employment of equal quantities of capital and labor. If with a capital of £1,000 a tenant obtain[s] 100 [measures] of wheat from his land, and by the employment of a second capital of £1,000, he obtain[s] a further return of 85, his landlord would have the power at the expiration of his lease, of obliging him to pay 15 [measures] or an equivalent value for additional rent, for there cannot be two rates of profit. If he is satisfied with a diminution of 15 [measures] in the return for his second £1,000 it is because no employment more profitable can be found for it. The common rate of profit would be in that proportion and if the original tenant refused, some other person would be found willing to give all which exceeded that rate of profit to the owner of the land from which he derived it.

If, then, good land existed in a quantity much more abundant than the production of food for an increasing population required, or if capital could be indefinitely employed without a

diminished return on the old land, there could be no rise of rent; for rent invariably proceeds from the employment of an additional quantity of labor with a proportionally less return.

The exchangeable value of all commodities, whether they be manufactured, or the produce of the mines, or the produce of land, is always regulated, not by the less quantity of labor that will suffice for their production under circumstances highly favorable, and exclusively enjoyed by those who have peculiar facilities of production; but by the greater quantity of labor necessarily bestowed on their production by those who have no such facilities; by those who continue to produce them under the most unfavorable circumstances, the most unfavorable under which the quantity of produce required, renders it necessary to carry on the production.

It is true, that on the best land, the same produce would still be obtained with the same labor as before, but its value would be enhanced in consequence of the diminished returns obtained by those who employed fresh labor and stock on the less fertile land. Notwithstanding, then, that the advantages of fertile over inferior lands are in no case lost, but only transferred from the cultivator, or consumer, to the landlord, yet since more labor is required on the inferior lands, and since it is from such land only that we are enabled to furnish ourselves with the additional supply of raw produce, the comparative value of that produce will continue permanently above the former level, and make it exchange for more hats, cloth, shoes, and so forth, in the production of which no such additional quantity of labor is required.

The reason, then, why raw produce rises in comparative value, is because more labor is employed in the production of the last portion obtained, and not because a rent is paid to the landlord. The value of corn is regulated by the quantity of labor bestowed on its production on that quality of land, or with that portion of capital, which pays no rent. Corn is not high because a rent is paid, but a rent is paid because corn is high; and it has been justly observed, that no reduction would take place in the price of corn, although landlords should forego the whole of their rent. Such a measure would only enable some farmers to live like gentlemen, but would not diminish the quantity of labor necessary to raise raw produce on the least productive land in cultivation.

Nothing is more common than to hear of the advantages which the land possesses over every other source of useful produce, on account of the surplus which it yields in the form of rent. Yet when land is most abundant, when most productive, and most fertile, it yields no rent; and it is only when its powers decay, and less is yielded in return for labor, that a share of the original produce of the more fertile portions is set apart for rent. It is singular that this quality in the land, which should have been noticed as an imperfection, compared with the natural agents by which manufacturers are assisted, should have been pointed out as constituting its peculiar pre-eminence. If air, water, the elasticity of steam, and the pressure of the atmosphere, were of various qualities; if they could be appropriated, and each quality existed only in moderate abundance, they, as well as the land, would afford a rent, as the successive qualities were brought into use. With every worse quality employed, the value of the commodities in the manufacture of which they were used, would rise, because equal quantities of labor would be less productive. Man would do more by the sweat of his brow, and nature perform less; and the land would be no longer pre-eminent for its limited powers.