

## Lecture 6: Ricardo and the post-Ricardian era

We now move from Malthus to Ricardo – or rather, we move from E&H chapter 6 to chapter 7, since Malthus keeps popping up most of the time. This is justified since their economic work was almost contemporary and they shared ideas on most points, even though they differed in some, such as the protection of agriculture and the possibility of unemployment. Chapter 7 contains the main points about Ricardo's contributions, sometimes perhaps a little painstaking – you don't need to work through all the numerical examples, try instead to use graphical tools whenever possible.

The section on rent ("The classical doctrine of land rent") is of course important, the idea that prices are determined by the most inferior soil cultivated (which of course is at marginalist argument) is not Ricardo's own, but its logical underpinning and the way in which it can be made consistent with a labour theory of value is due to Ricardo.

In the next section ("The Ricardian system") discusses the labour theory of value and the income distribution theory, and also this is central in Ricardo's work. As already said, you may skip the numerical examples (and the long pieces of citation, which on the other hand give some feeling of authenticity instead of textbook re-interpretations). The section on the (friendly) controversies between Malthus and Ricardo may be read quickly, E&H pass rather too quickly over Say, but at least they give a reasonable description of what Say actually meant. The story about Martineau may be skipped.

The chapter proceeds with a section on Nassau Senior, one of the many authors of the first half of the 19th century. Senior is important and innovative in several ways, among which the axiomatic method (as it would be called today) as given by the four principles on p.171. He is also known for the so-called abstinence theory, an early approach to time preferences and determination of interest rates.

In the final section, figure 7-1 gives a nice representation of the classical way of thinking about economics, with the evolution over time towards a stationary state of the economy.

Before moving to the next main figure (Mill) we jump to chapter 11 which gives an overview of other authors of the period 1800–1850. The chapter should be read leisurely, but some of the contributors of this period should be remembered. The long introduction may be skipped, only at its end there is a very short mention of

several English authors known as Ricardian socialists, which could merit a more detailed account (I shall add something in the next lecture note) From the French school one should in particular for Sismondi who can be seen as a forerunner of both Marx and Keynes, Fourier (the contributions to theory were few but ideas about the phalanstères were influential at the time), and Proudhon (“property is theft”).

The chapter also mentions the German Historical School which had its beginning at this time even if its main development came only in the second half of the century.

Somewhat surprisingly, our text doesn't mention Bastiat, whose writings were very influential up to the middle of the century, in particular in France and Germany. Here are a few comments:

**Frederic Bastiat** (1801 – 1850), whose main work “Economic Harmonies” indicates the political observation, was a strong believer in laissez-faire capitalism and justified the existing society as the best possible. He considered the authority of science, as represented by Say and Senior, as decisive against left-wing writers such as Proudhon.

Bastiat's point of departure is a version of *utilitarianism*: In an exchange, both parties are better off since otherwise they would not engage in the exchange. Given that all human interactions are exchanges, it may then be concluded that what emerges is better for all. So, according to Bastiat, political economy, which deals with exchanges, shows that society achieves social harmony.

In the value theory, Bastiat considers also nature to contribute to value, but apart from this, it comes from production, where also capital, which he considers as the result of foresight, intelligence and thrift, plays a role. Not surprisingly, he was opposed to any interference with property rights such as taxation of inheritance.

**We read:** H&E Chapter 7 and 11.