Economic thinking and dominated

Economics

The British Economists who gave us in inheritance the new Economic thinking and dominated the Economic world during whole 19th century is nonetheless David Ricardo. He came to be known for his Classical system of political economy, David Ricardo belonged to thefamilyof Iberian Jews who arrived at Holland to escape the prosecutions during 18th Century. Ricardo got interested in economics while reading Wealth of Nations by Adam Smith in 1776.

After his Friend and economist Mill urged him to pen down his works he started writing newspapers articles in 1809 questions of currency due to which he entered into controversy which came to be known as Bullionist Controversy whereby his arguments was far converting papermoneyinto gold when in 1810 and 1811 he articulated their arguments to come up with classical theory of money. David Ricardo, Karl Marx and John Stuart Mill advocated that Money was nothing but in the form of gold, silver and other precious metals and therefore the price of money and its determination is not different than any other commodity.

This means they considered the long run value of money as to be directly proportional to the costs of their production that underlay convertible paper money. Thus, these notes did not constitute the part of their theory. They believed that Gold and Silver have value in regard to the labour required for their production and in their Marketing. According to all the three economists, "... Though [paper money] has no intrinsic value, yet, by limiting its quantity, its value in exchange is as great as an equal denomination of coin, or of bullion in that coin.

" (The classical Theory of Money, Cipa Schools. com). In 1815, Ricardo wrote an Essay on Profits, in which he gave us the differential theory of rent and the " law of diminishing returns" to land cultivation, simultaneously this was also being researched independently by Malthus, Robert Torrens and Edward West. He formulated the theory of distribution by taking corn economy. He advocated that the increase in wages will not lead to rise in prices and profits can also be increased if there is fall in wages and vice versa.

Secondly, he stated that profit is determined by the cost of the production of thefoodwhich has to be increased. Ricardo then came to the conclusion that the most accurate theory was the labour doctrine of Value. According to Jacob H Hollander, The theory of value is, restricted to commodities, while, Ricardo’s theory of distribution involves in it the relationship between the land and capital, but on the other hand, the basic aspects of these economic principles gets a back lash when it comes to Interest and Rent resulting in number of contradictions.

According to the theory, the rate of profit depends on the number of workers in farm, whereas if we take into consideration the land, there are various aspects to it. The land is divided into two categories according to the fertility level, naturally the land that is more fertile will produce more food than the land which is less fertile, therefore the most fertile land has higher rent and vice versa, and with these increase in rents, profits fall too. This happens only because the cost of the rent due to the increase in population is not enough for gaining profits and indirectly prevents the development of the economy as a whole.

Ricardo also pinpoints that the Capital also can create problems simply because different industries appoint different amounts of capital per laborer, and therefore there is a difference in profit level across industries. Ricardo assumes that if we make the rate of profit equal in different industries, then, the relative prices can change with wages. Ricardo realized that the labour theory of value would only work if the degree of capital-intensity will be the same in all sectors, and hereby lays the paradoxical situation which leads to the negative aspect of this theory.

So to come out of this dilemma, Ricardo suggested two ways: The first was based on practical experience. If firms invest in capital in proportion to the labour, then in case of the profits being equal, the prize will almost remain the same. In 1958 even Stigler could not stop terming it as 93 per cent labour theory of value. His second solution was to find out a commodity, whereby there is an involvement of average capital per worker, whereby its price would show value of labour and thus does not change with changes in distribution; he called it, “ invariable standard of value”.

He says that if one is able to find this “ standard” commodity, then analysis can become easy. But Ricardo could not found out this standard value. Commenting on the Ricardo’s Theory of comparative advantage that is dependent on Theory of Labour, Prof Jan Kregel pinpoints that there was lot of criticism to the Ricardo’s theory s because it does not take into account other factors of production such as land and capital, but the later Hecksher-Ohlin-Samuelson theory tried to overcome this drawback by. In Ricardo’s theory of international trade, theory of labour has its role.

He emphasized that trade takes place because there are certain differences in the productive capacity of labour in different countries, that means a country would export only if it felt he had comparative advantage of relatively lower labour cost but the exception here is; incase of different labour costs, there will arise a situation whereby it will be difficult to show which labour cost will determine exchange-value? In spite of efforts of Ricardo to come out of this situation he could not find the answer, but only later it was John Stuart Mill who came up with the solution that exchange value will be determined by " supply and demand".

(Dr Roger A. McCain, Rent, Labour and Capital). Though this Theory of Labour was inherited by many economists yet there were three main exceptions to this theory and they were scarce goods, international trade and monopoly. REFERENCES: 1. David Ricardo, 1772-1823, The History Of Economic Thought Website, Retrieved February 8, 2007 from the World Wide Web http://cepa. newschool. edu/het/profiles/ricardo. htm 2. Dhamee Yousuf '96 (English 73, 1995) David Ricardo's Contributions to Economics, The Victorian Web Retrieved February 8, 2007 from the World Wide Web: http://www. victorianweb. org/economics/ric. html

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