

3.4. DAVID RICARDO (1772 – 1823)



The law of comparative advantage is an important argument for free trade. This principle, which was developed by David Ricardo, argues that it is in each country's best interest to produce the goods in which it has the greatest degree of advantage, and then import goods in which it does not.

David Ricardo was born on April 18, 1772, in London, England. He was the third son of Abraham Ricardo, a successful member of the Stock Exchange. Young Ricardo was raised in the Jewish faith. He studied abroad at the Talmud Tora, a Jewish Commercial School, until he was 14, then returned home to work for his father. At first he was **assigned** only minor tasks, but his mathematical mind was quick to **grasp the complexities** of the Exchange, and he gradually **assumed** more and more of the responsibilities of his father's business. There was, however, **friction** between Ricardo and his father. Early in his life he had begun to **rebel** against his family's strict religious rules. **The final straw** came in 1793, when Ricardo announced that he was marrying Priscilla Anne Wilkinson, the daughter of a prominent Christian leader. Bitter, his father **disinherited** him and **stripped** him of his job and his hopes for a seat on the Exchange. However, while working for his father, Ricardo had met many bankers and business leaders. By the time he was 22, he had **persuaded** several of these contacts to lend him the money he needed. He then invested the capital in deals that paid off quickly and **handsomely**. Indeed, by the time David Ricardo was 42, he had **amassed** an enormous sum and was able to retire on the income generated by that fortune. Ricardo's reputation on the Stock Exchange earned him the respect of London's financial and political leaders. Although he was largely uneducated, his **brilliance was undisputed**. He was clearly one of the financial leaders of the day.

He became interested in economics in 1799 and he became **to socialize** with economists, expressing his ideas in discussions with them. Among his friends were Thomas Robert Malthus, James Mill, and Jean Baptiste Say. They wrote numerous letters to one another in which they presented and debated economic ideas. Ricardo's ideas about political economy, which he **expounded** in his letters, would **ultimately** prove central to the development of economic thought. But it was 10 years before he felt confident enough to attempt publication. Writing was difficult for him, and he worried that his lack of formal education would **hinder** his ability to express his ideas **persuasively**.

Finally, in 1809, Ricardo published **The High Price of Bullion: A Proof of the Depreciation of Bank Notes**. The Pamphlet, which argued that England's inflationary ills were due to the Bank of England's failure to **restrict** the issue of currency, was enthusiastically received by political and business leaders.

Still, it was 5 years before he had the courage to publish another work – one which expressed an idea that soon became the **cornerstone** of classical political economy. His **Essay on the Influence of a Low Price of Corn on the Profits of Stock** describe the **diminishing returns** that would result from added investments of capital and labour applied to land. The law of **diminishing marginal returns** states that, all other things equal, the addition of a **variable** factor of production to other fixed factors will **yield** diminishing marginal returns.

In 1817, Ricardo published a major economic work, **On the Principles of Political Economy and Taxation**. The book was, as economic historian puts it, a “badly written, highly abstract, **frantically** disorganized tract.” Nonetheless, it was one of the most important publications in the development of political economy. It **shaped** the way economics was approaching for nearly 100 years.

In his **Principles**, Ricardo developed the concept of comparative cost, or comparative advantage. The law of comparative advantage states that if each country specializes in the production of goods for which its **sacrifice** is lowest, the total output of goods available in the world will be increased. The notion of comparative advantage was the **apex** of nineteenth – century free – trade **doctrine**, and it remains the standard argument for free trade today. David Ricardo retired from the Stock Exchange in 1814 to his newly purchased estate, Gatacomb Park, in Gloucestershire. He devoted his time to studies of political economy and to the cause of political reform.

In 1823, at the age of 51, David Ricardo died of cerebral complications resulting from an ear infection. When he died, he was a wealthy, well-respected man. A business person and a politician, Ricardo's practical knowledge about the way the economy works made him one of the most important economists of his day.

Task:

1. In what family was David Ricardo raised?
2. What was the final straw in friction between Ricardo and his father?
3. Why did Ricardo's reputation earn him respect on the Stock Exchange?
4. What were his first ideas about political economy?
5. What book by David Ricardo was enthusiastically received by political and business leaders?
6. What is the central idea of the law of diminishing marginal returns?
7. In what book did Ricardo develop the concept of comparative cost or comparative advantage?