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# **The Economic Philosophies**

OF

## **Adam Smith and Ricardo.**

(The subject-matter of a series of lectures delivered to the  
M. A. Final and the M. A. Previous classes  
of the Allahabad University)

BY

**Ratish Mohan Agarwala, M. A., LL. B.**

[ Author of "Roads to Freedom and Slavery" ; Formerly  
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Scholar, Allahabad University ; and sometimes Lecturer  
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"History of Economic Thought." ]

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# DEDICATED

TO

All those Intellectuals of the world

Who have had to suffer  
or are suffering  
at the hands of their fellow-men  
in the same way as this :—

“Remember the fate that has befallen the intellectual in Europe. Men of the eminence of Einstein and Freud and Ludwig were exiled. Men who have raised the stature of humanity, bright and luminous stars in the history of mankind, have had to seek shelter in foreign lands. Eminent philosophers, artists, musicians, men of science, who had dedicated their lives to study.....and who desired no more than that they should be permitted to continue the momentous work on which they were engaged, were hunted out of their homes like the worst criminal”.—Pandit Amar Nath Jha, M.A. in his Convocation Address at the University of Mysore on October 14, 1940.



**OPINIONS**  
**ON**  
**The Published and the Unpublished**  
**Works**  
**OF**  
**Ratish Mohan Agarwala M. A., LL. B.**

---

**I. PUBLISHED WORK.**

[ *“Roads to Freedom and Slavery”*, (1924) ]

“The book holds out great promise regarding the author’s career as a writer on economical subjects.”—The “Modern Review”, (Calcutta), January 1925.

**II. UNPUBLISHED WORK.**

[ *“The Theory of Normative Economics,”*  
*comprising the Seventh Part of the*  
*Author’s forthcoming publication,*  
*“The Science of Economics”*. ]

“It is an exceedingly able piece of work”.—  
J. A. Hobson in a letter to the Registrar, Allahabad  
University, in 1933.

**"The substance and form of your reasoning seemed to me to be excellent".—J. A. Hobson in a letter to the Author, dated the 15th. of April, 1935.**

**"The magnificent scope and stretch of your arguments fills me with admiration.....I hope that when published your work will receive the attention it deserves."—J. A. Hobson in a letter to the Author, dated the 17th. of January, 1938.**

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**"I believe there would be few Economists in India who would be possessing the same extensive and close knowledge of the economic literature on this aspect of the subject as does Mr. Agarwala."—Prof. S. K. Rudra, M.A. (Cantab.), Head of the Economics Department, University of Allahabad, in a testimonial issued to the Author on the 29th. of June, 1931.**

# **“The Science of Economics”**

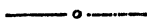
(in the light of a wholly new discovery with regard to  
its Concrete and Psycho-Ethical Backgrounds.)

BY

**Ratish Mohan Agarwala M. A., LL. B.**

The result of full seventeen years' Researches  
in England and India.

*(To be shortly released for publication.)*



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## PREFACE.

"The Economic Philosophies of Adam Smith and Ricardo" comprises the subject-matter of a series of lectures which I delivered on the subject while teaching the, "History of Economic Thought" to the M. A. Final and the M. A. previous classes of the Allahabad University in 1936. As I believe there was something of permanent value in these lectures, I am now releasing their subject-matter for publication in book form. I hope this work would prove of some use to the students of Economics and Politics and also to those general readers who may like to know what the "Father of Political Economy" and his illustrious successor had to say with regard to the way in which Society as a whole should be organised and what the State and the Individuals should do in economic matters.

I have great pleasure in recording here my thanks to my friend, Mr. B. P. Jain, M.A., L' B., Assistant Secretary, Indian Chamber of Commerce, Calcutta, and my nephew, Mr. P. M. Agarwala, I.S.E., Senior Electrical Engineer, Telegraphs, Calcutta, who have obliged me by reading through the manuscripts of this work and suggesting some important improvements therein.

Ratish Mohan Agarwala.

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# The Economic Philosophies of Adam Smith and Ricardo.

## Chapter I. The Economic Philosophy of Adam Smith.

In this work we propose to describe the Economic Philosophies of Adam Smith and Ricardo, the two greatest Economists that the world has ever yet produced. We would divide our study into two chapters. In this chapter, we would give a short exposition of the former as we find it propounded in Adam Smith's famous work, "The Wealth of Nations," published in 1776.

We may begin by pointing out that, like all true geniuses, Adam Smith himself was quite unaware of his own real greatness. Going out to make a *combined* study of "Positive Economics" and "Economic Philosophy", he just classified his work into certain broad categories on the basis of the former and then went on writing and the various parts of the latter loosely fell out at different places in his work, without his being at all conscious of the great flights of

imagination to which his mind had meanwhile soared in that sphere and the wonderful feats which his intellect had performed unknown to himself. No wonder then that when he found a Pitt putting a new interpretation upon some of his doctrines, he should have exclaimed in surprise, "Oh! what a wonderful person this man Pitt is! He understands my ideas better than myself!" Little could he imagine then that, with the passage of time, many more of his ideas and doctrines would come to be better understood and interpreted in their true spirit by his successors, as has actually been the case. And as this process has continued, he has been endeared more and more to the later generations and held higher and higher in their estimation. It was but natural then that most of his contemporaries and compatriots should have been over-awed by the near and immediate presence of a genius who, though living in their midst, was destined to rule over the intellects and the hearts of men for many centuries to come and to win eternal fame for himself and his work!

Let us now see what Economic Philosophy Adam Smith actually put forth in his work. Putting together all its various parts, we find that the

whole of that Philosophy resolves itself into four different parts. In the first place, he takes a very simple premise, namely, the "Universal Desire for Bettering our Condition" and makes it the "Starting-point" of his whole System. In the second place, he lays down an extremely intricate "Ideal of Production" and constructs a "System of Natural Liberty" on the basis thereof. Thirdly, he qualifies that "System" by laying down a second "Ideal" with regard to the "Welfare derived in the Productive Process" together with a number of "Precepts" for the attainment thereof. And finally, he further qualifies that "System" by laying down a third "Ideal" with regard to "Distribution", together with a few "Precepts" for its attainment. We would deal with each one of these parts under separate sub-headings below.

## **I. The Starting-point of Adam Smith's Economic Philosophy**

Proceeding first to describe the "Starting-point" of Adam Smith's Economic Philosophy,

we may note that though no scientific study of the theory of human motives had till then been made by the Psychologists, Adam Smith had some ideas of his own on the subject. He thus believed that "Pleasure" and "Pain" along with a number of "Natural Propensities" constitute the chief motive forces of human life—the more important of these "Propensities" being those of "Hunger", "Thirst" and "Sex"; those for "Ostentation", "Approbation" and "Present Enjoyment"; and those to "Save," "Truck and Barter", "Resent Injuries" and "Feel Gratitude". But though he held these views on Psychology and also occasionally referred to them in his works, he did not regard them as perfect enough to make them the "Starting-point" of his Economic Philosophy. There was one thing in human life, however, namely, the "Universal Desire for Bettering our Condition" which, because it "comes with us from the womb and never leaves us till we go into the grave,"<sup>(1)</sup> is so "uniform, constant and uninterrupted" in its natur<sup>e</sup><sup>(2)</sup> that its existence could always be presumed in all human beings. He consequently took this "Universal Desire for Bettering our Condition" as the "Starting-point" of his Economic Philosophy

and constructed a whole system of Economic Ideals and Precepts on the basis thereof.

## **II. The Ideal of Production and the System of Natural Liberty Based Thereupon.**

Taking the "Universal Desire for Bettering our Condition" then as his "Starting-point," Adam Smith first proceeded to point out that the most important way of "Bettering" the "Condition" of both nations and individuals was to bring about as large a "Production" of "Wealth" as possible. He consequently first laid down an Ideal of "Maximum Wealth Production" and then shewed how it could best be attained in actual practice. This Ideal is embodied in two different passages in his work. In the first passage, Adam Smith declared that "the great object of the Political Economy of every country is to increase the riches and power of that country."<sup>(3)</sup> In the second passage, he wrote that "Political Economy.....proposes two distinct objects: first, to provide a plentiful revenue or subsistence for

the people or, more properly, to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the State or Commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.”(4)

Taking both the above passages together, we may note that there are three different “objects” which, according to Adam Smith, *Political Economy* places before itself; namely first, to increase the riches and power of a nation; secondly, to provide a plentiful revenue or subsistence for the people; and thirdly, to supply the State with sufficient revenues for public purposes. Since the revenues of the State, however, are generally derived, through taxation or otherwise, from the revenues of the people, the third of these “objects” automatically drops out of our consideration. As the revenues of the people themselves ultimately depend upon the riches and power of their nation, the second of these “objects” also merges itself into the first and the latter alone consequently remains to be considered in detail.

Adam Smith, therefore, next proceeded to

study how this first "object", namely to increase the "riches and power" of a nation, could best be attained in actual practice.

The first thing that Adam Smith pointed out in that connection was that the "riches and power" of every country increase in direct proportion to the quantity of the Annual Produce. This is so because as the Annual Produce of every nation "bears a greater or smaller proportion to the number of those who are to consume it, the nation will be better or worse supplied with all the necessaries and conveniences for which it has occasion."<sup>(5)</sup> That alone could not, however, increase its "riches and power" *as compared to those of other nations*. A formula was consequently required by adopting which a nation could increase its riches and power *not only within its own borders but also in relation to the rest of the world*. This formula, according to him, was the "Maximisation of the Exchangeable Value of the Annual Produce." By adopting and practising it, he believed, a nation could attain *both* the ends noted above. For, *as between nations*, a country which possessed the greatest amount of "Exchangeable Values" could be said to have the greatest resources of

all sorts at its disposal which it could make use of at any time it liked and it could, therefore, be said to possess the greatest "riches and power" as against the others. Similarly, *inside a country also*, the Maximisation of the Exchangeable Value of its Annual Produce, said he, leads to *the greatest abundance of the real goods of all sorts required for consumption*. And that for three different reasons. In the first place, *by producing things which possessed the greatest Exchangeable Value, a nation could procure in exchange for them from other nations the largest amount of those goods which it could not produce at all or which it could only produce at a much greater cost*. In the second place, *since the Exchangeable Value of the Annual Produce could be increased "by no other means but by increasing either the number of its productive labourers, or the productive power of those labourers who had before been employed,"*<sup>(6)</sup> *an increase in the amount of this "Exchangeable Value" always meant an increase either in the number of goods produced or in their utilities*. And finally, *an increase in the "Exchangeable Value" of the Annual Produce almost always meant, unless the amount of the Annual Consumption also increased at the same*

*time, an increase in the amount of "Capital" available in a society—though, as we would subsequently point out, the former itself depended for its continual increase on a corresponding increase in the amount of the latter. For all these reasons, therefore, Adam Smith regarded an increase in the "Exchangeable Value of the Annual Produce" as a sign of progress and as representing an increase in the amount of the "Real Wealth and Revenue of a Country."* He consequently declared that "the Annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with the exchangeable value," (7) and always referred to the "Exchangeable Value" of a nation's "Annual Produce" as constituting its "Real Wealth and Greatness."<sup>(8)</sup>

*Adam Smith, therefore, put forth the "Maximisation of the Exchangeable Value of the Annual Produce of a Nation" as the Ideal of Production.*

Having done this, Adam Smith next proceeded to study how this Ideal could best be attained, or in other words, how the "Exchange-

able Value of the Annual Produce” could be “maximised” in actual practice.

In this connection, Adam Smith first pointed out that the Exchangeable Value of the Annual Produce increases in direct proportion to the amount of “Capital” or “Stock employed for the sake of profit” that is available in a society.<sup>(9)</sup> This is so because “Capital” represents the “fund” from which “Productive Labourers” are maintained and “additions and improvements to those machines and instruments which facilitate and abridge labour” are made.<sup>(10)</sup> “Every increase or diminution of capital, therefore,” said he, “naturally tends to increase or diminish the real quantity of industry, the number of productive hands, and consequently the exchangeable value of the annual produce of the land and labour of the country, the real wealth and revenue of all its inhabitants.”<sup>(11)</sup> In order, therefore, to be able to bring about an increase in the Exchangeable Value of the Annual Produce from year to year, it was absolutely necessary, according to Adam Smith, that *the amount of “Capital” available in a society should be kept continually increasing.*

How can then the amount of “Capital” be

kept continually increasing? Not by increasing the "Balance of Trade," as the Mercantilists had suggested, but by continually increasing the "balance of the annual produce and consumption". The passage in which Adam Smith expounds this idea is an interesting one. "There is another balance, indeed," wrote he, ".....very different from the balance of trade, and which, according as it happens to be either favourable or unfavourable, necessarily occasions the prosperity or decay of every nation. This is the balance of the annual produce and consumption. If the exchangeable value of the annual produce .....exceeds that of the annual consumption, the capital of the society must continually increase in proportion to this excess. The society in this case lives within its revenue; and what is annually saved out of its revenue, is naturally added to its capital, and employed so as to increase still further the annual produce. If the exchangeable value of the annual produce, on the contrary, falls short of the annual consumption, the capital of the society must annually decay in proportion to this deficiency. The expense of the society in this case exceeds its revenue, and necessarily encroaches upon its capital. Its capital, therefore, must necessarily

decay, and together with it, the exchangeable value of the annual produce of its industry.”<sup>(12)</sup>

Thus the “Capital” of a society, according to Adam Smith, can be increased only in two ways, namely, first, by “decreasing the annual consumption” and secondly, by employing what is thus saved in such a way that the “Exchangeable Value of the Annual Produce” may be still further increased as far as possible.

Now with regard to the first of these two methods, Adam Smith pointed out that the amount of annual consumption decreases by “parsimony” and increases by “prodigality”, “Parsimony”, said he, “by increasing the fund which is destined for the maintenance of productive hands, tends to increase the number of those hands whose labour adds to the value of the subject upon which it is bestowed. It tends, therefore, to increase the exchangeable value of the annual produce of the land and labour of the country.”<sup>(13)</sup> Every “parsimonious” person was thus, according to him, a public benefactor. The case was, however, quite different with a “prodigal” who by “diminishing the funds destined for the employment of productive labour

.....necessarily diminishes, so far as it depends upon him, the quantity of that labour which adds a value to the subject upon which it is bestowed, and consequently, the value of the annual produce of the land and labour of the whole country, the real wealth and revenue of its inhabitants.”<sup>(14)</sup> Adam Smith, therefore, advised all individuals to practise “parsimony” and to avoid “prodigality” to as large an extent as possible.

With regard to the second method, it may be pointed out that Adam Smith first made a distinction in that connection between “Productive” and “Unproductive” Labour, or in other words, that kind of Labour which does and that which does not add to the “Exchangeable Value” of the subject upon which it is bestowed<sup>(15)</sup> and then pointed out that if a society were annually to employ all the “productive labour” which it could annually purchase, the Exchangeable Value of the Annual Produce would be greatly increased thereby. It was consequently the duty of individuals, said he, to lay out their expense on the maintenance of “productive labourers” and to avoid spending it on the “unproductive” ones as far as possible.

These are then the two ways in which the amount of "Capital" available in a society can be kept continually increasing. The question now arises as to how this "Capital" should be employed so that the "Exchangeable Value of the Annual Produce" may be increased to the greatest possible extent.

Proceeding next to examine that question, Adam Smith pointed out that if only individuals are left perfectly free to pursue their self-interest wherever it might lead them, they would naturally apply themselves to the production of those commodities which possess the greatest "Exchangeable Value"<sup>(17)</sup> and as the "Exchangeable Value" of the "Annual Produce" was simply the sum-total of the "Exchangeable Values" of "Individual Produces," it would also be automatically maximised at the same time. "As every individual, therefore," said he, "endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labours to render the annual revenue of the society as great as he can."<sup>(18)</sup> Of course in so doing, "it is his own

advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society.”<sup>(19)</sup> He is “in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.” <sup>(20)</sup> “Every system,” therefore, “which endeavours by extraordinary encouragements to draw towards a particular species of industry a greater share of the capital of the society than what would naturally go towards it, or by extraordinary restraints to force from a particular species of industry some share of the capital which would otherwise be employed in it……retards, instead of accelerating the progress of the society towards real wealth and greatness ; and diminishes, instead of increasing, the real value of the annual produce of its land and labour.”<sup>(21)</sup> The State should not, therefore, said he, either “force” or “allure” into any particular channel a greater share of the capital of the country than what would naturally “flow” into it “of its own accord.”<sup>(22)</sup> “All systems either of preference or of restraint, therefore,” continued he, “being thus completely taken away, the obvious and simple System of Natural Liberty

establishes itself of its own accord. Every man, as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way and to bring both his industry and capital into competition with those of any other man, or order of men.”<sup>(23)</sup> According to the System of Natural Liberty, said he, “the Sovereign has only three duties to attend to……first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and thirdly, the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual, or small number of individuals, though it may frequently do much more than repay it to a great society.”<sup>(24)</sup> These works and institutions he classifies into those for facilitating the commerce of the society, and those for promoting the instruction of the people, such as schools, colleges, churches and others.

Passing on next to the international sphere, Adam Smith pointed out that it was only under a condition of "Free Trade" that a nation could maximise the "exchangeable value" of that part of its produce which was sold abroad. He consequently laid down a policy of perfect "Free Trade" between nations, except when some restrictions, as in the case of the Navigation Acts, were necessary to be imposed in the interests of the "Defence" as opposed to the "Opulence" of a country. The "System of Natural Liberty" was thus not only to reign supreme within a nation but was also to be established in the international sphere as well.

It was in this way that starting with a very simple "Ideal of Production" and then passing through one of the most rigorous and exacting analyses that can anywhere be met with in economic literature, Adam Smith finally arrived at the "System of Natural Liberty" in both the National as well as the International spheres as an ideal social arrangement. Since the conclusion at which he thus arrived was quite in harmony with his "theistic and optimistic view of the Order of the World,"<sup>(25)</sup> as set forth in his "Theory of Moral Sentiments," he felt all the

more certain of its infallibility. It must be clearly understood, however, that it was only his "Ideal of Production" that had led him to that "System." There were two other Economic Ideals still which further qualified and limited that System in different ways, as we shall now proceed to shew.

### **III. The Ideal with regard to the Welfare derived in the Productive Process.**

Starting with the "Universal Desire for Bettering our Condition" again, Adam Smith pointed out that the second way of "bettering" our "condition" was to protect and promote the "Welfare" derived in the process of Wealth Production to the greatest possible extent. He, therefore, put forth a second Economic Ideal of Protecting and Promoting the Welfare derived in the Productive Process as much as possible. This Ideal, according to him, could be attained in three different ways, which may be described as follows :—

In the first place, Adam Smith held that

the Welfare derived in the Productive Process could be protected by decreasing the dangers to "security" as much as possible. He, therefore, laid down that "those exertions of the natural liberty of a few individuals, which might endanger the security are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotical."<sup>(26)</sup>

In the second place, Adam Smith pointed out that the Welfare derived in the Productive Process could be protected by decreasing the disadvantages of "Division of Labour." He thus pointed out that the man whose whole life is spent in performing a few simple operations, such as in making the "seventh part of a pin" or the "eightieth part of a button" <sup>(27)</sup> generally becomes "as stupid and ignorant as it is possible for a human creature to become." His dexterity, said he, at his particular trade is in this way acquired "at the expense of his intellectual, social and martial virtues." <sup>(28)</sup> He, therefore, held that the "Government" should take "some pains to prevent" <sup>(29)</sup> these evil effects of "Division of Labour" without doing away with that institution itself which he had

elsewhere declared to be a very useful one on the whole and a necessary accompaniment of social progress.

And finally, Adam Smith pointed out that the Welfare derived in the Productive Process could be protected and increased by reducing the evils of "Commercialism." He pointed out in that connection that a poor workman in his "separate independent state" is "less liable to the temptations of bad company, which in large manufactories so frequently ruin the morals of the hired labourer." (30) He consequently held that to remove these evils introduced by "Commerce" would be "an object worthy of serious attention." (31)

#### **IV. The Ideal of Distribution.**

Finally, taking the "Universal Desire for Bettering our Condition" again as his "Starting point," Adam Smith pointed out that before our "condition" could really be said to have been "bettered," it was necessary that the material circumstances of the labouring and

the poorer classes of the people should be improved as far as possible. He, therefore, laid down a third Economic Ideal of bringing about greater equality in the Distribution of the Annual Produce between the different classes of the people and further "qualified" the "System of Natural Liberty" in the light thereof.

It may be observed in this connection that Adam Smith was very much troubled to find that inspite of all the increase in the amount of wealth and prosperity which the growth of large scale industries and commerce had recently brought about, the workmen in the commercial parts of England were in a despicable condition and that "the people who clothe the whole world" were "in rags themselves." (32) He consequently declared that any improvement in the circumstances of the lower ranks of the people would be an "advantage" and not an "inconvenience" to society for "no society" can really be "flourishing and happy" of which the greater part of the members are "poor and miserable." "It is but equity, besides," said he, "that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves

tolerably well fed, clothed and lodged.”<sup>(33)</sup> Adam Smith, therefore, proposed that a sufficiently high rate of wages should be paid to the labourers. This proposal was, however, bound to meet with some opposition from the side of the “merchants” who had always complained about the evil effects of high wages on trade and industry whenever the labourers themselves had demanded an increase of wages for themselves. Anticipating this opposition, Adam Smith consequently wrote that “our merchants and master manufacturers complain much of the bad effects of high wages in raising the the price, and thereby lessening the sale of their goods both at home and abroad. They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people.”<sup>(34)</sup> And the voices of protest that might have been raised against his own proposal were completely silenced for the time being at least.

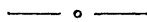
## **The Conclusion.**

This brings us to the end of this brief review

of Adam Smith's Economic Philosophy. It would appear from the above that, starting with a very simple premise, namely the "Universal Desire from Bettering our Condition," Adam Smith at first leads us with a powerful hand through certain blind alleys, providing some real thrills on our way, and then spreads out before us a virtual feast of intellectual entertainment till we are fully satiated and left wondering at his remarkable erudition and ingenuity! He was happy in the choice of his "Starting-point." The "Universal Desire for Bettering our Condition" did not depend for its validity or otherwise on any Psychological or Ethical Theories whatsoever. It could, therefore, stand its ground on its own merits. It had, moreover, served his purpose remarkably well. It is not surprising, therefore, that he should have repeatedly praised it and declared it to be the "Principle" from which all national and private opulence is "originally derived" and which has always maintained "the natural progress of things towards improvement" in the past <sup>(35)</sup> and which he further hoped would continue to do so "in all future times." <sup>(36)</sup> The Economic Philosophy which Adam Smith constructed on the basis of this "Principle" was also

equally remarkable. On the very first reading of it, you would not find a single flaw in his arguments or a single escape from his conclusions—so powerful is his logic and arguing capacity! You stand face to face with a force that had carried everything before it like a whirlwind at the time at which it had appeared and which has not yet lost its brilliance and dazzling powers even after the lapse of more than one hundred and fifty years! For the time being, you are wholly in the hands of the magician who thrills, hypnotises and overpowers you in every way and you *have* consequently to ditto all he says to the very end of it! When once you have finished his work, however, and are thus once more outside the charmed circle of his magic influence, you may calmly sit down to think things out for yourself. And then you may find that you could either improve upon his premises or his conclusions or both or even create a new Economic Philosophy of your own on the basis of wholly new premises. You may then go out to do your own work as best you can and it is just possible that you may produce something more ingenious, powerful or remarkable still! But even when you would have done all this, you would still find lurking

somewhere in your heart a feeling that some part at least of your present abilities and capacities to do your own work so well could be traced back to the individual whose work you had just been perusing and who had laid the whole world under a deep debt of gratitude to him by producing a real work of art in 1776. And then your heart would automatically go out to pay a respectful homage and a silent tribute to Adam Smith the Great, the "Father of Political Economy" and the "Man of Destiny, Unrivalled and Unsurpassed !"



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30. "Wealth of Nations," P. 38.
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32. "Lectures on Justice, Police, Revenue and Arms," P. 255-7.
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34. "Wealth of Nations," P. 45.
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## Chapter II. The Economic Philosophy of David Ricardo.

In this chapter we would describe the Economic Philosophy of David Ricardo as we find it propounded in his "Principles of Political Economy and Taxation," published in 1817.

We may begin by pointing out that Ricardo in his work, as Adam Smith had done in the "Wealth of Nations," made a *combined* study of "Positive Economics" and "Economic Philosophy." The former part of his work, consisting of his famous "Theory of Rent" and other "Theories of Distribution," at once acquired so much importance and prominence that the latter was completely thrown into the background. Added to this was the fact that Ricardo, like Adam Smith again, had presented his whole "Economic Philosophy" in such an unsystematic and disconnected form that it was difficult for the average reader to get a clear grasp of its full import from a cursory reading of his work. For both these reasons, it was not always fully realised that Ricardo had actually gone out to challenge the very foundations and the

whole structure of Adam Smith's Economic Philosophy and had constructed a new system of his own to take its place. That alone would not have mattered much, however. What made things still worse was the fact that since the conclusions at which Ricardo had arrived through his new "Economic Philosophy" were almost identical with those of Adam Smith, his very role as an independent thinker in this sphere was forgotten and he came to be regarded as a mere "Follower" of the latter. Not that it mattered anything to Ricardo. He was too good a man to mind the appellation. In fact, he held the great Adam Smith in so much veneration that he was quite willing and happy to be treated as one of his "Followers." But that was really very unfair to Ricardo ! His work on "Economic Philosophy" requires a separate and grateful acknowledgment. That is his rightful due and a world which has already profitted so much from his remarkable and manifold contributions to "Positive Economics" would do well to give him his proper share of credit for having thought out something original on "Economic Philosophy" also.

Two things have now consequently to be

done. In the first place, we have to separate the whole of Ricardo's Economic Philosophy from his "Positive Economics" with which it is constantly intermingled in his work. In the second place, we have to put it at one place in a systematic and coherent form. Doing both these things for ourselves, we find that it resolves itself into two parts, consisting first, of an "Ideal of Production" and its application and secondly, of an "Ideal of Distribution" and its application. We would deal with both these parts of Ricardo's "Economic Philosophy" separately below.

## I. The Ideal of Production.

Taking Ricardo's "Ideal of Production" first, we may note that Ricardo began by pointing out that the "Wealth" or the "Riches" of a Nation increased if the *Quantity* of the Annual Produce increased. "The End" consequently, said he, was "to augment the produce"<sup>(1)</sup> or "to obtain a great annual quantity of production." "The end of all commerce," he stated elsewhere, "is to increase production" for "by increasing production" we "increase the general happiness."<sup>(2)</sup> To bring about the Maximum

Production of Wealth as measured by the *Quantity* of the Annual Produce was, therefore, Ricardo's Ideal of Production.

Ricardo, however, made a distinction between "Riches" and "Value" and pointed out in this connection that "Value" essentially differed from "Riches" for "Value" depends "not on abundance" but "on the difficulty or facility of production." "A man is rich or poor according to the abundance of necessaries and luxuries which he can command, and whether the exchangeable value of these for money be high or low, they will equally contribute to the enjoyment of their possessor."<sup>(3)</sup> Ricardo did not consequently treat the "Wealth" or "Riches" of a nation as increasing or decreasing according as the exchangeable-value or the exchange-value of its Produce increased or decreased but only in proportion to the "abundance" of that Produce. "The important thing," said he, is "Riches" and not "Value"<sup>(4)</sup> and "all trade, whether foreign or domestic, is beneficial, by increasing the quantity and not by increasing the value of productions."<sup>(5)</sup> *Ricardo did not, therefore, regard the "Maximisation" of the "Exchangeable Value" or the "Exchange-Value"*

*of the Annual Produce as the true "Ideal of Production" but always aimed at increasing the "Quantity" of the Annual Produce as much as possible.*

How could then the *Quantity* of the Annual Produce be increased as much as possible? Ricardo replied that the "Wealth" of a country could be increased in two ways, namely, first, "by employing a greater proportion of revenue in the maintenance of productive labour, which will not only add to the quantity, but to the value of the mass of commodities"; and secondly, "without employing any additional quantity of labour, by making the same quantity more productive, which will add to the abundance, but not to the value of commodities." In the first case, a country would not only become rich but the value of its riches would also increase at the same time. It would become rich "by diminishing its expenditure on objects of luxury and enjoyment, and employing those savings in reproduction." In the second case, with the same labour, more would be produced; "wealth would increase but not value." Of the two modes of increasing wealth, the second was to be preferred as it produced the same result

“without the privations and diminution of enjoyments which can never fail to accompany the first mode.” (6)

There are thus two different ways, according to Ricardo, in which the *Quantity* of the Annual Produce could be increased. The *better* way was to make the same amount of labour that was employed before “more productive.” This did not require the use of any additional amount of “Capital” and, therefore, increased the *Quantity* but not the Exchangeable Value of the Annual Produce. This method should consequently be adopted as far as possible by giving the proper and necessary training to the labourers. The *less preferable* way of increasing the *Quantity* of the Annual Produce was to increase the “number” of productive labourers. This always required the use of an additional amount of “Capital” and could consequently increase the *Quantity* of the Annual Produce only by increasing the Exchangeable value of the latter. But as the *Quantity* of the Annual Produce could be increased *in this way also*, this method should also be utilised after all possibilities of producing Wealth in the former way have been fully and thoroughly tried out.

But this *less preferable* way of increasing Wealth always necessitates the use of more "Capital." The problem, therefore, arose as to how this "Capital" was to be procured in as large an amount as possible. Ricardo consequently pointed out that "when the annual productions of a country more than replace its annual consumption, it is said to increase its capital; when its annual consumption is not at least replaced by its annual production, it is said to diminish its capital." (7) This means, in other words, that the "Capital" of a country can be increased either by increasing production or by decreasing consumption. Production can be increased, along with the other methods of so doing mentioned above, by employing more of those labourers that are "Productive" and less of those that are "Unproductive." Consumption, on the other hand, can be decreased by practising "Parsimony" and avoiding "Prodigality" to the extent required,—looking upon the practice of the former and the avoidance of the latter not as things *desirable* but only as *necessary evils*, for both of them deprive nations and individuals of their present enjoyments.

Given a sufficient amount of trained labour

and productive capital, then, it had next to be considered how they should be utilised so as to increase the *Quantity* of the Annual Produce as much as possible. Ricardo, therefore, laid down, in almost the same words as had previously been used by Adam Smith, that "under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole". (8) Ricardo, therefore, laid down the "Precepts" of "Pursuing one's own Advantage" for the individuals and of practising "Laissez Faire" and "Free Trade" for the State in the national and the international spheres respectively for the attainment of his "Ideal of Production" as we have described it above.

## II. The Ideal of Distribution.

Passing on next to the consideration of Ricardo's "Ideal of Distribution," we may note that though Ricardo believed that every "Factor of Production" gets what it deserves under a condition of perfectly free competition, he still

held that an effort should always be made to increase the share of the labourers by raising their Standard of Life and in other legitimate ways. "The friends of humanity," wrote he in this connection, "cannot but wish that in all countries the working classes should have a taste for comforts and enjoyments, and that they should be stimulated by all legal means in their exertions to procure them."<sup>(9)</sup> Similarly, in another passage, he wrote that "but it may be said.....that the million deducted from the landlord's rent will be paid in additional wages to labourers. Be it so ;.....the situation of the society will be improved.....it will only prove what is still more desirable, that the situation of another class, and by far the most important class in society, is the one which is chiefly benefitted by the new distribution."<sup>(10)</sup> And he is known to have exercised his influence in this direction through his writings and in other ways whenever he could find any opportunity to do so.

## **The Conclusion.**

This brings us to the end of this short review

of Ricardo's Economic Philosophy. Whatever its merits, it was only on some such lines, and not on those of Adam Smith, that the Economists belonging to the Lauderdale-Torrens-Scrope School of thought—or in other words, those Economists that aimed at bringing about the production of the greatest *Quantity* of the Annual Produce and not merely at maximising its Exchangeable Value or Exchange-Value,—would have liked to argue. In doing the work he did, therefore, Ricardo did something which a whole group of Economists would have liked to see being done. Whether it was going to be a success or a failure, it needed a moral giant to do it! For who else than that could go out to challenge the great Adam Smith to the extent of discarding his whole Economic Philosophy and creating a wholly new one to take its place? Lord Lauderdale had not dared to do so. We cannot say if Colonel Torrens and J. P. Scrope would have been able to do it. The minor Economists did not matter at all. They could have never done any such thing. Dr. Cannan was still too far off and things in his time were going to take a wholly different shape. Had it not been for Ricardo, therefore, this particular type of Economic Philosophy

would probably have never come into existence at all. And a gap—perhaps, a very big gap,—would thus have been left in the varied literature of Economic Science, representing all points of view, from a proper synthesis of which the ultimate and eternal truth was going to be evolved some day. To have done this work, over and above his remarkable contributions to “Positive Economics,” was the glory and the achievement of David Ricardo, the most rigorous and abstruse theorist that the world has ever produced !



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