CHAPTER IV

David Ricardo and the Cry for Free Trade

David Ricardo never attended college. But he delved into economic theory with more competence than any academic. He never formally studied financial markets. Yet he made millions of pounds in the stock market. His powerful mind and practical knowledge so dominated intellectual foes that he could win fiery debates and then dismiss the rival argument, saying that only a university professor would be silly enough to believe it.

One university professor was "silly" enough to disagree with Ricardo. His name was Thomas Robert Malthus. But critics had so viciously slandered Malthus that he actually enjoyed Ricardo's thoughtful attacks. After Shelley and Coleridge, Ricardo's snipes must have seemed more like a serenade. And at least Ricardo agreed with his population principle.

The relationship between Ricardo and Malthus began in the press, when each published essays on currency and trade issues criticizing the other. Malthus finally sent a letter to Ricardo in 1811, suggesting that since "we are *mainly* on the same side of the question, we might supersede the necessity of a long controversy in print . . . by an amicable discussion in private." At almost the same time Ricardo was composing nearly the same note. They met a few days later and it was the beginning of a lifelong friendship. Before Ricardo's death in 1823, he wrote to Malthus, stating that despite numerous disputes, "I should not like you more than I do if you agreed in opinion with me." Only three people shared in Ricardo's will, and Malthus was one. Later Malthus announced, "I never loved anybody out of my own family so much."

Malthus never knew anybody who was so outside his "family" as Ricardo. Whereas Malthus came from an old English family and took holy orders in the Anglican Church, Ricardo was born the son of a Jewish immigrant in 1772. Abraham Ricardo was one of the twelve "Jew Brokers" permitted to practice as a stockbroker in London. While Malthus received careful tutoring and schooling at Cambridge, Ricardo went to work with his father at fourteen and began to learn intricate financial systems and strategies on the job, so to speak. And he learned well. By his mid-twenties the man with the Midas touch had established his own business and amassed a fortune through stocks, bonds, and real estate investments. The only investment money Malthus ever earned, Ricardo made for him. A primary example of their contrasting acumen occurred during Napoleon's reign. Ricardo had bought some British government stock for himself and Malthus, but after the proclamation of a new French constitution, Malthus grew nervous, fearing that a good turn of events for the French leader would hurt the stock. In tones so timid that they show Malthus better suited for a Church bingo game than the stock market, he requested Ricardo to sell the shares, unless "it is either wrong, or inconvenient to you, and whatever may occur . . . I shall always be sensible of your kindness, and not disposed to repine." Ricardo sold Malthus' shares but held on to his own a bit longer, earning almost double Malthus' premium.[1]

Although wealth surrounded Ricardo, he did not read *The Wealth of Nations* until he was twenty-seven and only then by "accident." During a boring vacation in the English resort of Bath, the future leader of classical economics tripped upon the founder's greatest work. Recall that Adam Smith began *The Wealth of Nations* during a dull stay in France. Since economics seems to owe more to boredom than any other discipline, perhaps students should not complain if their professors occasionally repay the favor or commemorate the founding.

In 1809, Ricardo debuted as an economics writer—with newspaper articles and pamphlets on currency and inflation—to rave reviews. At the urging of James Mill, a political economist and father of philosopher John Stuart Mill, Ricardo entered London's intellectual society, later becoming a member of Malthus' Political Economy Club and of the King of Clubs (a social club). A splendid raconteur and host, Ricardo especially impressed the novelist Maria Edgeworth, who reported having had "a delightful conversation, both on deep and shallow subjects. Mr. Ricardo, with a very composed manner, has a continual life of mind, and starts perpetually a new game in conversation. I never argued or discussed a question with any person who argues more fairly or less for victory and more for truth."[2]

The son of an immigrant soon became the model English gentleman, wise to the industrial revolution and smart in the drawing room. At the bullying of James Mill, in 1817 Ricardo finally wrote a treatise, *On The Principles of Political Economy and Taxation,* providing a full commentary on Adam Smith as well as contemporary issues. Two years later, and again at Mill's urging, Ricardo won a seat in the House of Commons, where his high-pitched voice rang out for political freedoms and free trade.

A Tricky but Brilliant Theory

We do not know how many members of Parliament actually understood Ricardo, especially his views on trade. This was not because his views were cloudy or he was inarticulate, but because Ricardo tried to argue perhaps the most complex and counterintuitive principle of economics. Once President Gerald Ford gave a televised speech on the federal budget deficit using a calendar as a visual aid, all carefully rehearsed so that he would not make any embarrassing hand gestures. No modern president would attempt to do what Ricardo tried to do. Unfortunately, the perplexing principle is the key to modern economic understanding. An insolent natural scientist once asked a famous economist to name one economic rule that is not either obvious or unimportant. Ricardo's Law of Comparative Advantage was the immediate response. Regrettably, few politicians then or now can follow the analysis. As a result, quotas, tariffs, and trade wars mar the world's economic history.

Before examining the principle, let us see why Ricardo bothered to explain it. As in Adam Smith's vision, businessmen love to shout about free enterprise at Rotary Club meetings, yet whisper requests for favors into the ears of politicians on Capitol Hill. During Ricardo's time, landowners whispered and waved their wealth at Parliament, securing protection from the import of grain after the Napoleonic Wars. The price of grain had soared during the Wars, partly as a result of Napoleon's embargo, and landowners feared a sudden drop at the onset of peace. On the other side of the aisle sat the rising bourgeoisie, the new businessmen of the Industrial Revolution. Since the bourgeoisie employed laborers, they preferred to see lower prices for food, so they wouldn't be forced to pay higher wages. The landowners won the battle of influence, and in 1815 Parliament passed an act that prohibited imports of grain below a certain price, virtually granting farmers a monopoly. British dictionaries define "corn" as grain such as oats, rye, wheat, and barley. Thus, the acts were called "Corn Laws."

Ricardo saw two futures for Britain: First, as an insular, protectionist island barricaded against foreign goods. Second, as an extroverted trader, acting as the "world's workshop." The choice was critical. For if Britain chose the former, the self-reliant economy would soon become decrepit. We will first learn why Ricardo preferred the open-door policy and then examine the tricky question of Ricardo's "stationary state."

Recall Adam Smith's absolute advantage trade model. Imagine him espousing his theory and insulting the French by saying, "We don't like them. They eat frogs. And I had a tedious time in Toulouse. But if they can make wine cheaper than we can, we should toast them and drink their wine. If they cannot make wine more cheaply, let's just snicker at them across the English Channel." A logical, intuitively correct statement.

To understand Ricardo's response, imagine the old television series "Gilligan's Island." Hapless, hopelessly clumsy Gilligan is washed ashore along with the competent, self-assured skipper. Two tasks must be done—fishing and building shelter. Assume that the skipper can catch a fish dinner in 10 hours and build a thatched hut in 20, and that Gilligan usually hooks himself and takes 15 hours to catch fish and 45 hours to build a hut. By Adam Smith's logic, the skipper should move as far away from Gilligan as possible, building and fishing on his own, since he outperforms Gilligan in everything. But economists still shudder with reverence when Ricardo shows that the skipper should split the chores with Gilligan!

Let's first calculate how many fish dinners and huts they could build on their own, spending half their time fishing, the other half building. Assume that during a year, the skipper will work a total of 2,000 hours, and his younger first mate Gilligan is ordered to work 3,600. If the skipper spends 1,000 hours on fishing, he will garner 100 fish dinners; and 1,000 hours of hut building by him will produce 50 huts. Gilligan's 1,800 hours of fishing will bring 120 dinners; and 1,800 hours of hut building will make 40 huts. So the total number of dinners on the island is 220, eaten in the comfort of 90 huts.

What happens if they specialize? If the skipper spends all his time on huts, he will construct 100; if Gilligan concentrates on fish, he will return with 240 fish dinners. Thus, the island has increased output dramatically just by specializing, even though Gilligan was far less competent at both tasks!

Imagine Ricardo responding to Smith's hypothetical insult of the French by saying "I dislike the French as much as Adam Smith did. But I do not snicker at them just because they cannot do anything as cheaply as we can. I would trade with them despite their inferiority."

The next key question is: how do we know what to specialize in? Let us return to the island. Since it takes the skipper twice as long to erect a hut as it does to catch dinner, he gives up two dinners every time he builds a hut. But Gilligan, who takes three times longer to build a hut than to catch dinner, gives up three dinners every time he builds a hut. Since building huts is a smaller sacrifice for the skipper, he should build huts. Ricardo showed that people and countries should specialize in whatever leads them to give up the least. This is their "comparative advantage." And the sacrifice they make by not producing a good is their "opportunity cost." Thus, specialization is determined by whoever has the lower opportunity cost.[3]

The point of Ricardo's analysis: free trade makes it possible for households to consume more goods *regardless* of whether trading partners are more or less economically advanced. The point of Ricardo's Corn Laws position: If French farmers are willing to feed us for less than it would "cost" us to feed ourselves, let us eat French food and spend our time doing something else.

The Battle Against Protectionists

If Santa Claus begins airlifting cakes, cookies, and clothing by reindeer, should we shoot Rudolph out of the sky because we bake and sew ourselves? The problem confronting Ricardo and all "free traders" is that bakers and tailors would prefer that the government intercept and destroy Rudolph. They would claim that jobs depend on baking for ourselves. But they forget the benefits to consumers throughout the country, especially to the lower classes, for whom cheaper food means a substantially better life. At the time Ricardo wrote and argued before Parliament, workers spent nearly half their wages on breads made from grain. To block cheap grain imports adversely affected workers and their employers. Further, protectionists forget that jobs are created by selling goods and services to other countries. No wonder Ricardo became an enemy of the upper class by declaring that the "interest of the landlords is always opposed to the interest of every other class in the community."

Despite the force of his intellect and argument, Ricardo could not persuade Parliament to relent. The Corn Laws persisted until 1846. Ricardo did, however, persuade subsequent generations of economists that protection is almost always bad for an economy as a whole, though good for a particular group. People sometimes insult economists for frequently disagreeing about policy prescriptions. George Bernard Shaw predicted, "If all economists were laid end to end, they wouldn't reach a conclusion." Yet several times during the twentieth century, thousands of economists signed petitions begging the U.S. government not to block imports. Every time the domestic economy appears stagnant, some politicians try to placate voters by threatening foreign economies. The United States imposed its highest tariffs of this century when it and the world needed free trade the most, during the Great Depression. When economies turn inward, they almost always turn downward. There is no such thing as an inward and upward spiral in economics.

During the 1980s Japanese automakers began "voluntarily" restricting exports to the United States to avoid even harsher measures from Congress. Because the supply of Japanese cars was limited, their prices rose, and American manufacturers were able to charge more for their own cars. Economists estimated that American consumers lost $350 million as a result in the first year, and car prices rose nearly $3,000 in the first three years of the restraints. Even if, at most, 10,000 jobs were "saved," the American economy could have paid each worker $35,000 a year just to sit at home. Instead, fewer consumers could afford cars and those who bought had fewer dollars left to purchase other goods, reducing jobs in other sectors. "Domestic car makers could and probably should cut prices, but the government handed the American consumer to them on a platter, and they couldn't resist carving them up," charged Robert Crandall of the Brookings Institution.[4]

During 1989, automotive lobbyists beseeched the Treasury Department to classify imported minivans and sport/utility vehicles as trucks. If the Treasury had given in to the pressure, tariffs on such vehicles would have increased tenfold. The British government especially protested the proposal on behalf of Rover. Their embassy in Washington, D.C., informed the White House that the Queen herself drives a Range Rover, and that the Queen would *never* drive a truck.

Abraham Lincoln put one protectionist argument pithily: "I don't know much about the tariff, but I do know if I buy a coat in America, I have a coat and America has the money—if I buy a coat in England, I have the coat and England has the money." He was right—he did not know much about the tariff. Like the mercantilists, Lincoln did not understand that a country is wealthy if it consumes lots of goods and services, not if it stockpiles metals or paper currency with portraits of presidents on them. If Lincoln buys the London coat he prefers, he cashes in some dollars for British pounds. So someone in London now has dollars. Londoners do not give up pounds just to wallpaper their flats with greenbacks. The Londoner will either (1) buy an American product or (2) trade in the dollars for pounds. If she buys an American product, Lincoln is happy because he preferred the London coat, and the Londoner is happy because she liked the American good. If she dumps her dollars, she will dump them on someone else who wants to buy American goods.[5]

What if we could just stuff a million rowboats full of American money in exchange for the *QE II* filled with British goods? Then the Treasury could print billions of five-dollar bills. According to Lincoln's logic, we would get beautiful sweaters, teapots, and tweed suits, while the British would get paper! Although Lincoln did not realize it, this would be a wonderful deal! But the joke's on us. Lincoln did not understand that the British accept dollars *because* they can buy American goods and financial assets with them. Money may not make the world go around, but money certainly goes around the world. To stop it prevents goods from traveling from where they are produced most inexpensively to where they are desired most deeply.

The issue is not whether coats will be produced in the United States or not. It is whether we will use our valuable resources to produce goods with a higher or a lower opportunity cost. By allowing trade, nations coerce their citizens to shift resources away from low productivity industries and toward high productivity industries. If nations shift, households can enjoy more goods with less sacrifice.

Shifts do cause pain, however, to workers and owners in low productivity industries. But protection often costs consumers so much, the government would do better to directly compensate the displaced workers and pay to retrain them. Protecting one steelworker's job cost over $100,000, while "saving" a shoemaker's job costs $77,000 in the early 1980s.[6] Further, the logic of protection points toward economic stagnation. Most industries and inventions that have raised our standard of living have forced others out of their jobs. A few years ago, Xerox produced a television advertisement depicting a monk working as a scribe at a monastery, carefully copying over pages of documents and prayers. One day his superior gives him a thick scroll to transcribe. The harried monk then briskly struts around the corner to a new copier machine, which does the job in seconds. Staring blissfully toward Heaven, he proclaims "a miracle." Can you imagine how a well-organized political action committee of monks might demand protection? Picture thousands of monks marching on Washington. How many monks could be displaced by electronic copiers?

The free market is not a pain-free market. The invisible hand does not protect us the way a mother protects her child. If people prefer more stability, perhaps they should opt for protection. But the benefits of economic growth and progress do not usually come to those who huddle in the corner while their government protects the harbors from Greeks bearing gifts and goods.

The world does not admire economists for their sense of humor. But the highlight of social science satire came from French economic pamphleteer Frédéric Bastiat during the 1840s, when France augmented import duties:

> From the Manufacturers of Candles, Tapers, Lanterns, Candlesticks, Street Lamps, Snuffers, and Extinguishers, and from the Producers of Oil, Tallow, Resin, Alcohol, and Generally of Everything Connected with Lighting To the Honorable Members of the Chamber of Deputies.
>
> Gentlemen:
>
> . . . We are suffering from the ruinous competition of a foreign rival who apparently works under conditions so far superior to our own for the production of light, that he is *flooding* the *domestic market* with it at an incredibly low price. . . . This rival . . . is none other than the sun. . . .
>
> We ask you to be so good as to pass a law requiring the closing of all windows, dormers, skylights, inside and outside shutters, curtains, casements, bull's-eyes, deadlights and blinds; in short, all openings, holes, chinks, and fissures. . . .
>
> If you shut off as much as possible all access to natural light and thereby create a need for artificial light, what industry in France will not ultimately be encouraged?. . . .
>
> If France consumes more tallow, there will have to be more cattle and sheep. . . .
>
> The same holds true for shipping.[7]

More seriously for our time, Ricardo's analysis implies that protectionism by wealthy nations condemns lesser developed countries to stagnation. It seems contradictory to offer millions of dollars in foreign aid and loans, while at the same time planting hurdles in front of the recipients. For example, the U.S. Congress, under pressure from domestic sugar producers, has thwarted the development programs of many Caribbean nations. Import quotas tightened from about 6 million tons of sugar in 1977 to just 1.2 million tons in 1998. Should we be surprised that many farmers south of the border found coca a more attractive crop and the underground American drug industry a more willing trading partner?

Sometimes it helps to imagine protectionist arguments on a small scale. Would a wealthy man be hurt by trading with a poor man? Should J. Paul Getty have made his own shoes rather than buying them? If not, why would the United States be hurt by buying shoes from Malaysia? Would the nation be richer if all people were self-sufficient? If all neighborhoods were self-sufficient? Should individual counties erect trade boundaries? Few would answer "yes," and of course the Constitution would prevent it. But why should a nation be enriched by turning away goods produced more cheaply abroad?

After World War II, many nations entered into the General Agreement on Tariffs and Trade (GATT), an organization designed to promote free trade. Later multinational trade negotiations took place, reducing world tariff barriers. Yet the threat of severe isolationist efforts survives, and the next few years appear precarious in this regard.

Ricardo's account and our discussion do not prove that tariffs are always wrong. They simply show that tariffs tend to constrict economic growth and that, therefore, most pleas for protection couched in terms of helping the consumer, increasing the number of jobs, or boosting the economy are suspect. Still, a country might prudently use a protectionist policy for national defense purposes or to ensure political stability in a time of acute uncertainty.

A Fork in the Future

Earlier we noted that Ricardo saw two futures for Britain: a bright future as an extroverted trader and a gloomy one as an isolationist. Through comparative advantage, Ricardo foresaw England emerging as the workshop of the world. And he cheerfully declared before Parliament that "this would be the happiest country in the world, and its progress in prosperity would be beyond the powers of imagination to conceive, if we got rid of two great evils—the national debt and the corn laws." Far from predicting doom, Ricardo directed his audience toward national progress: "Man from youth grows to manhood, then decays, and dies; but this is not the progress of nations. When arrived to a state of the greatest vigour, their further advance may indeed be arrested, but their natural tendency is to continue for ages, to sustain undiminished their wealth, and their population."[8]

Despite such raptures about trade, some authors persistently portray Ricardo as a pessimistic analyst, just as gloomy but more clever than that other goblin, Malthus. In fact, Ricardo did spend much time analyzing a depressing isolationist future. But we cannot forget that this future was used as a foil for the first path in order to frighten politicians into more laissez-faire policies.

What was the second path? Let us start with the sequence of steps before turning to an analysis. Accepting Malthus' population principles, Ricardo saw that (1) increasing population leads to higher demand for food, (2) which leads to extending farming to less fertile lands, (3) which leads to higher costs in farming, (4) which leads to higher prices for food, (5) which leads to paying workers more, (6) which leads to lower profits for entrepreneurs, (7) which leads to higher payments to those who own the best lands.

To understand Ricardo's game plan, we must open the program and identify the players. First and most plentiful are workers. In accord with Malthusian principles, they multiply when wages rise, which in turn reduces their wages. Thus, over the course of a long game, payments will stay at a level high enough to sustain them, according to the customs and expectations of the day. Ricardo does not condemn them to bare biological subsistence, scrounging for scraps and tottering in rags:

> [I]t is not to be understood that the natural price of labour, estimated even in food and necessaries, is absolutely fixed

> and constant. It varies at different times in the same country, and very materially differs in different countries. It essentially depends on the habits and customs of the people. An English labourer would consider his wages under their natural rate, and too scanty to support a family, if they enable him to purchase no other food than potatoes, and to live in no better habitation than a mud cabin.[9]

Second, we have tenant farmers. But note that they do *not* own the land they cultivate. Ricardo depicts them as capitalists who rent the land, hire workers, and earn profits. Instead of owning tools in a factory, the farmer owns plows. Ricardo agrees with Adam Smith that capitalists/farmers have a "restless desire" to follow market signals and shift resources and investments to the most profitable projects. Thus, they perform very important tasks for society, but not necessarily because they like society.

Third, and most powerful, Ricardo describes the wealthy landowners, who rent the land to the farmer. They live a leisurely life, yet ultimately realize more wealth than the other players.

Ricardo revamped economic conventions and the definition of "rent." Recall the Corn Laws debate. Some claimed that corn cost more because landlords were charging farmers more in rent. Ricardo disagreed, arguing that the price rose because of wartime shortages, which lured entrepreneurs into the farming industry. As they entered, landlords found more capitalists knocking at their doors and bidding up the rental price of land. Thus, land rents were high because the price of corn was high, not vice versa. When blockades tumbled, so would the price of corn, and landlords would have to charge lower rents. In modern economic terms, the desire for renting land is a "derived demand," determined by the supply and demand for corn.

Ricardo next argued that landlords can charge rents only if there is a demand for their property. Some landowners' property will be more fertile than others, and rent levels will be established on the basis of this difference in fertility. If Al owns a plot of land that yields 1,000 tons of grain, and Joan owns a plot nearby that yields only 500 tons, Al will be able to charge a higher rate to a capitalist farmer.

Rents arise because all land is not created equal:

> 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 these two portions of land. When land of the third quality is taken into cultivation, rent immediately rises on the second, and is regulated as before by the differences in their productive powers. At the same time, the rest of the first quality will rise.[10]

If Ricardo is right, rents emerge as populations grow. When few people need food, they can raise enough by farming only the best land. As mouths multiply, farmers begin cultivating the second-best land. Because the second-quality land produces less, the owner of the better land can now charge rent. Wages and a normal profit on the second land will determine the price of grain. And since costs are lower on better land, a surplus exists. The landlord takes the surplus.

Why did Ricardo's vision incite frowns and fright? According to it, the path of economic growth ended at a ditch, literally and figuratively. For a while capitalists could expand industrial production and even pay workers higher wages. But soon the happy workers would breed more workers, bidding down wages. How would England feed the hungry crowds? By farming more land. But remember, the additional lands would be less productive and most costly to cultivate, since farmers began by exploiting the richest land first.

The price of grain would rise. But the capitalist would not profit, because he must pay the workers more so that they can survive. If resources are "to be divided between the farmer and the labourer, the larger the proportion to the latter, the less will remain for the former."[11] Furthermore, the landlords who own the best lands collect higher rents when farmers begin tilling inferior land: Who wins? The landlords. Who loses? The capitalists. Who stays the same? The workers, although ultimately starvation could strike when farmers exhaust the lands. Ricardo calls the somber plight the "stationary state." Literally, hunger forces society to cultivate even ditches. Figuratively, the capitalists and workers are left waving their arms and shouting for help from within a ditch.

Why does Ricardo diverge so strongly from Adam Smith's merry dream? Smith generally assumes that agriculture will not decay into low productivity and that industry will continually grow more productive. In modern terms, Smith sees constant returns to agriculture and increasing returns to industry, which allows all parties to prosper. Ricardo depicts constant returns to industry and decreasing returns to agriculture. Of course, Ricardo does hold some hope that technology will periodically rescue the economy. The tendency for profits to fall "is happily checked at repeated intervals by the improvements in machinery, connected with the production of necessaries, as well as by the discoveries in the science of agriculture which enable us to relinquish a portion of labour before required, and, therefore, to lower the price of the prime necessity of the labourer."[12] Still, we cannot confidently depend on technology always to save us.

But remember Dickens' *A Christmas Carol.* The ghost tells the tale of the gruesome future Christmas, defiled by hunger, dread, and despair. Scrooge timorously asks, Is this the way Christmas must be? With the ugly clang of chains and a haunting, raspy wheeze, the ghost leaves tomorrow to Scrooge.

Ricardo is not the goblin some depict, but more like the ghost from *A Christmas Carol,* warning England that insular, greedy policies will bring harder and greedier times, while an open, extroverted trading position can promise happier days. "I contend for free trade in corn, on the ground that while trade is free, and corn cheap, profits will not fall however great be the accumulation of capital," he wrote. Economic growth confronts no ditches. And although obstacles arise from "the scarcity, and consequent high value of food and other raw produce . . . let these be supplied from abroad in exchange for manufactured goods, and it is difficult to say where the limit is at which you would cease to accumulate wealth."[13]

Ricardo's analyses proved fertile for criticism and extension. Like Malthus he underestimated the "restraint" of workers. They did not propagate as quickly as he feared. Milton Friedman, as noted previously, holds a pencil as his emblem of economic freedom. Sometimes the classical economists sound as if they should be holding rabbits' feet—not for luck, but to symbolize their perception of man's breeding propensity. Like Malthus, Ricardo bitterly opposed the Poor Laws, because they ultimately brought hunger, insisting that "every friend to the poor must ardently wish for their abolition."

Ricardo's blasts at landlords and depiction of rents came to the United States in earthy and fervent language through Henry George's *Progress and Poverty* in 1879. George, a journalist with messianic visions, led disciples in the "single-tax movement." Incensed by undeserved gain, George condemned landowners who simply collect rents while others struggle to generate wealth. Proposing a massive tax on land to absorb rents, George divined with more verve than any Old Testament prophet that it would abolish poverty; tame the ruthless passions of greed; dry up the springs of vice and misery; light in dark places the lamp of knowledge; give new vigor to invention and a fresh impulse to discovery; substitute political strength for political weakness; and make tyranny and anarchy impossible.[14]

There are several problems with the proposal. First, economists distinguish between "economic rent," which Ricardo discussed, and the simple rent tenants pay landlords. According to Ricardo, economic rent is a payment beyond what is necessary to keep land or labor or capital in its present use. Since land can only be used for grain in Ricardo's analysis, nothing has to be paid to keep it as farmland. Owners have no choice but to use it for grain. Therefore any payment to landlords is economic rent. Baseball great Willie Mays used to say that he would play for free. If he would, any payment he received would be economic rent, because it was beyond what was necessary to get him to play.

Movie stars receive economic rents also. Let us say that Sylvester Stallone constantly makes the choice between acting and working as a professional seamster. If he received less than $30,000 per movie for acting, he would switch to sewing hems and cuffs. Thus if a new movie, *Rocky Meets Rambo II in 3D,* paid him $5 million, we would say that $30,000 was "transfer earnings" and $4,970,000 was economic rent. Maybe Henry George would have been brave enough to take away all the rent.

The point is that part of a payment which keeps land, labor, or capital in a particular use is not economic rent, but transfer earnings. Any payment above that is economic rent. Therefore, if a property owner would convert his land into a carnival tenting ground if he did not receive $1,000 per month from tenants, the first $1,000 he receives is not economic rent. Beware of the ambiguity of the language. What apartment tenants usually call rent is not economic rent unless it exceeds the necessary payment. But how would Henry George know which part of the total payment is economic rent to be taxed? Here he would need even more heavenly help than he has revealed.

The single tax on land movement also faces moral hurdles to either leap or transcend. If fairness demands taxing economic rents, fairness requires taxing economic rents from land, labor, and capital. How would George distinguish between Stallone's transfer earnings and economic rents? What about salaries of senators and famous economists? Not everyone is as honest as Willie Mays.

Although George never accomplished his mission, he became famous throughout the United States and England, where devotees set up single tax societies to spread the good word. And the good book, *Progress and Poverty,* spread more quickly than laborers multiply. Despite the movement's ultimate decline, George fans can proudly point to property taxes as a source of state and local finance. But they cannot point as confidently as they could sixty years ago. George overestimated the future importance of rents and rental income. Governments at every level have grown tremendously in the last century. Even if governments could take all rents without rebellion or severe recession, rents would not come close to covering expenses. In 1929, property rents accounted for about 6 percent of national income. The percentage has steadily dropped to well under one percent today. Whereas property taxes once provided 65 percent of state and local budgets, they now supply about 17 percent.

If George caught a Ricardian pitch and ran amok, Ricardo's contemporary Malthus tried to bat it back. On the Corn Laws question, Malthus accepted much of Ricardo's analysis regarding rent and diminishing returns from farming. But he posited a four-part rebuttal. First, he maintained that the Corn Laws actually induced more domestic grain output because they boosted grain prices. Second, Malthus thought grain was too important a commodity to be left to foreign producers. Third, he concluded that higher grain prices actually increased wages to workers, since workers are paid according to the price of grain. Malthus thus claimed that higher wages would more than compensate for higher food prices. Ricardo disagreed. In modern terms, he thought that higher "nominal" wages would not be higher "real" wages; that is, they would not allow laborers to buy any more than they could before. To Ricardo, Malthus' argument sounded like the dictator who, smiling and winking at the masses, promises a doubling of salaries. The crowd cheers. They salute the five-story posters of the despot and rejoice. The next day they go to the stores and find that the employees of the stores spent the whole night marking up the prices by 100 percent.

Fourth, Malthus rather feebly defended the landlord by complimenting Ricardo, who had

> now become, by his talents and industry, a considerable landlord; and a more honourable and excellent man, a man who

for the qualities of his head and heart more entirely deserves what he has earned . . . I could not point out in the whole circle of landlords.[15]

Flattery got Malthus nowhere, except perhaps an invitation to Ricardo's country retreat. For Ricardo never said that landlords intentionally suck the lifeblood from a nation. Like the vampire, they are compelled by forces outside their power. Ironically, Ricardo the lavish landlord angered the landlords, while Malthus the modest teacher infuriated the humble folk.

Ricardo vs. Malthus on Gluts and Method

The Ricardo-Malthus show featured more than landlord debates, however. The two economists also disagreed about economic depressions. Malthus believed in "general gluts," an ugly phrase meaning that business sometimes supplies more goods and services than people want to buy. Ricardo would have sooner believed in a Godwinian Utopia than in general gluts. Ricardo embraced "Say's Law," named for the Frenchman J. B. Say, who proved logically that general gluts were fantasies. (Scientists love to discover laws and graphical curves, perhaps because custom lets the laws and curves be named for the discoverer. In economics, we also have Lorenz curves, Okun's Law, and Harberger triangles.)

What is Say's Law? Workers and owners of land and capital are paid wages, rents, and interest that add up to the sale price of the product. Every cost in manufacturing becomes someone's income. Therefore, consumers, who are simply laborers, capitalists, and landlords after they get home from work, can afford to buy all that has been produced. Say's Law is generally known by the slogan: "supply creates its own demand."

Say never forbade "partial gluts," which occur when consumers decide to purchase less of a particular product. Eventually, the seller will erase the partial glut by lowering the price. But to Say, Smith, Hume, and Ricardo a general glut remains impossible, because the consumers must do something with their money, and people have infinite desires for more material goods.

Malthus cried nay. First of all, he noticed that in the post-Napoleonic Wars depression of 1818, unemployment seemed very high. But how could he invade the tight circle that Say drew and Ricardo emboldened? He began by tracing the circle and agreeing that consumers *could* buy all the goods offered, but what if they did not feel like spending all of their money? What if they preferred to save or hoard? Would this not leak out of Say's circle of buying and leave the merchants sitting on top of unsold merchandise?

Ricardo swiftly struck back. If consumers save, they keep their money in banks, which then lend to those who do want to spend money on consumer goods or investment goods. Either way, someone is spending. Even Adam Smith knew that: "What is annually saved is as regularly consumed as what is annually spent, and nearly in the same time too; but . . . by a different set of people."[16] Ricardo then scolded his friend "Mr. Malthus," who "never appears to remember" this simple point.

Though he convinced few economists, Malthus still sensed a gap between savings and investment. To cure a general glut, he proposed "the employment of the poor in roads and public works, and a tendency among landlords and persons in property to build . . . and to employ workmen and menial servants" as "the means most within our power and most directly calculated to remedy the evils."[17]

But Ricardo responded that Malthus' *Principles* present "hardly a page" without "some fallacy."

Even if Ricardo won the day, a century later, J. Maynard Keynes resurrected the loser. In a resplendent paean, Keynes paid tribute to the "first of the Cambridge economists" for his theory on depressions and at the same time denounced Ricardo. "If only Malthus, instead of Ricardo, had been the parent stem from which nineteenth century economics proceeded what a much wiser and richer place the world would be today!"[18] Keynes surely exaggerates here both in the extent of Ricardo's dominance (he "conquered England as completely as the Holy Inquisition conquered Spain") and the similarity between his own analysis and Malthus'. Though Keynes and Malthus both rejected Say's Law, Malthus made little headway relating saving to investment and urged public works to slow investment, not to stimulate sales of goods, as Keynes did. Nonetheless, if Keynes says Malthus inspired him, who are we to disagree?

The real difference between Malthus and Ricardo did not revolve around gluts, rents, or protection but rather method. Both lived in an age of scientific discovery. Both searched for cause-and-effect links. Both predicted what would occur because of these links. But Ricardo focused more intensely on the intricate sequence of steps along the way. Malthus seemed content to find a general principle and then apply it to the world. Recall Ricardo's careful seven-step path to the stationary state. Neither Smith nor Malthus constructed such rigorous models. Under the guidance of James Mill, Ricardo attempted long deductive chains of reasoning. He wanted to derive propositions as certain as Euclidean geometry or Newtonian mechanics. Sometimes his assumptions or first premises were simply wrong. But given those premises, his theory was impregnable. Impregnable, yes; useful, perhaps not. Keynes and Joseph Schumpeter both accused Ricardo of choosing assumptions or examples that ensured the result he desired. Schumpeter called this the "Ricardian Vice." And whom else did Schumpeter accuse of suffering from the Ricardian Vice? Keynes.

Ricardo discussed his methodological differences amiably: "Our difference may in some respect, I think, be ascribed to your considering my book as more practical than I intended it to be. My object was to elucidate principles, and to do this I imagined strong cases." Ricardo also preferred long-run analysis to short-run descriptions, telling Malthus that "you have always in your mind the immediate and temporary effects of particular changes—whereas I put these . . . aside, and fix my whole attention on the permanent state of things which will result from them."[19] No wonder correspondence shows that Ricardo refused to grant Malthus' empirical observations. They either did not fit into Ricardo's strong case or appeared to be fleeting. But because Malthus never constructed sophisticated analytical models, he gained the reputation for fickleness. His contemporary, Robert Torrens, wrote that "in the leading questions of economical science, Mr. Malthus scarcely ever embraced a principle which he did not subsequently abandon."[20] Later, Keynes earned the same reputation, permitting his most acerbic critics to praise his eclecticism—in choosing the worst from the best.

Despite the attacks by Keynes and Schumpeter, exalted economists including Marx, Walras, Marshall, and Wicksell have declared Ricardo's preeminence. One prominent student of economic method recently proclaimed that "if economics is essentially an engine of analysis, a method of thinking rather than a body of substantial results, Ricardo literally invented the technique of economics."[21]

One gets the impression that when Malthus died, some came to the funeral to mourn, others to make sure he really was dead. Ricardo attracted more admirers for his intellect, for his kindness, and for his character. Here was a wealthy man who could have spent his life luxuriating in the country and traveling throughout the world. Instead he used his leisure to study perplexing questions and derive abstract, abstruse, and, he thought, correct solutions. Upon teaching himself about the world, he taught others by book, by newspaper, and by Parliamentary speech. His law of comparative advantage and theory of economic rent still appear in textbooks, as persuasive and important as ever.

Although Ricardo's theories are taught throughout the world, it is the European nations that may best test Ricardo's legacy. They have fulfilled their 1992 pledge to dismantle all remaining trade barriers among themselves, giving Ricardo a partial victory. For a complete victory, the European Union countries must also keep their second pledge—not to erect fortresses on their shores that would prevent countries such as the United States and Japan from participating in their dynamic program for prosperity. So far, the results are mixed. Though U.S. financial firms have made strong inroads (often by merging with European entities), somehow French farmers continue to win special favors to the annoyance of American and Australian agriculture. Despite heaping praise and saintly adjectives on Nelson Mandela, the Dutch are blocking South Africa's cut flowers; German potato farmers are protesting their spuds; and French winegrowers are keeping out South African chardonnays. The most divisive issue might be bananas! Europe continues to protect its former colonies in Africa from the banana growers of the Caribbean and Latin America. So far bananas have been a strong weapon against free trade. Ricardo would be disappointed, but hopeful.