"Professor Hollander and Ricardian Economics": A Reply to Professor Moss

by Samuel Hollander*

Professor Moss (this Journal, December 1979) provides a helpful and commendably accurate summary of the various interpretations to be found in the literature on Ricardian economics including my position which gives pride of place to the inverse profit-wage relationship and regards changes in the price of corn simply as one possible cause of variation in the money wage.

Moss (505–6) draws the valid distinction between two forms of the inverse profit-wage relation: first, what he calls the "tautological version that, if wages plus profits equal output and output is held constant, then a rise in wages will lower profits"; and secondly the version involving market process. Now I do not claim in my book that the second version was spelled out in any detail by Ricardo; what I do claim is that competitive allocation analysis is a central part of Ricardian theory, and that the consequences of a change in the wage rate for prices and profits outlined by Ricardo imply the operation of the market process even though he left the exercise to his readers.

In making my case for a significant influence upon his successors, however, it is the first version that takes pride of place since I do not suggest that Ricardo's readers appreciated the implicit process analysis entailed.

Now Moss subscribes to the "consensus view" that the essence of Ricardianism lies specifically in the agricultural theory of profit (the corn model as it is sometimes called) rather than the general inverse profit-wage relation (503). The reason for this, in part, seems to be his belief that the inverse wage-profit relation Marx is quite insignificant. On this we must part company. Even the first version I regard as of the highest significance so that, as I believe can be demonstrated, Ricardo persuaded his successors to adopt it one can speak of a meaningful legacy.

Does not Moss's historical perspective go awry when he dismisses the first version as "tautological"—"to deny the validity of this proposition is surely tantamount to denying the basic logical law of noncontradiction"—and "unimportant"? I am not sure why he takes for granted that what is "tautological" is necessarily "unimportant" as he seems to do; on the contrary, surely the growth of knowledge involves in part a growing awareness of "tautological" relationships. This indeed seems to be the case in the present instance.

It is obviously true that an increase in a proportionate share must imply a decrease in the residual proportionate share. But Ricardo's efforts were not devoted to proving this proposition—his concern was with the preceding stages of the argument (cf. EDR, 267f).

In the first place, he struggled (unsuccessfully as he himself realized) to devise a means of assuring constancy in the value of the total to be shared between wages and profits. Secondly, if this problem is put aside, or assumed

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away, and we presume in principle (if not in practice) an approximately unchanged value of the produce to be distributed, Ricardo sought to demonstrate that only certain categories of wage rate variation may be identified with variations in the wage share. Specifically, a wage rate increase which reflects an increase in the cost of producing wage goods or a larger wage basket (in conditions of unchanged productivity) is identifiable with an increased wage share of output (net of rent), while a wage rate increase which is purely nominal—reflecting an alteration in the cost (or quantity) conditions of the monetary medium—leaves the share of wages in the wage earner's income unaltered and represents a distinct kind of inflation.

Thirdly, the identification of an increase in the "real" wage with an increase in the wage share in output net of rent is itself not a truism because it does not hold good universally. An increase in the labour embodied in wages may not involve an increase in the wage share if the value of output-as-a-whole (net of rent) should be increasing. An increase in the share of wages is implied unambiguously only if the value of per capita wages rises.

The fact must also be taken into account that Ricardo did not exert all his efforts merely to arrive at a statement of the inverse relation between wages and profits envisaged as proportions. This was only a step towards the ultimate objective which was to define the determinants of the rate of return on capital. The rate of profit is said to be dependent upon, but is certainly not identified with, the share of profits in per capita or total output (net of rent), and the relationship is certainly not a "truistic" one since the capital stock considered by Ricardo in his calculations—including those of the chapter "On Profits"—is not generally reduced entirely to wage advances.

However, when all is said and done, the full significance of the inverse profit-wage nexus can only be evaluated, and accordingly Ricardo's place in the development of economic thought identified, if full attention is paid to the insinuating force behind his investigations. The relevant consideration in this regard is Ricardo's objection to received doctrine based upon the Smithian analysis. The charge that Ricardo merely formalized a "truism" will be seen to be without foundation if it is remembered that contemporary thought did not distinguish between those ("nominal") wage increases which do not and those ("real") wage rate increases which do involve a change in the distributive shares, and in fact implied that even wage increases falling within the latter category may be passed on by employers in the form of higher prices to the agriculturist or urban lower orders in agriculture. Here we have the allusion to the erosion of the real value of profits.

Now these arguments do not in themselves explain the precise adjustment mechanism at work following a wage variation. They operate, as it were purely on the logical plane. Inversion sales of capital. The inverse relation of capital, as we have observed, is a necessary condition to profit, and it is necessary to establish something self-evident to any layman.

II. Let us turn briefly to the Ricardoan "legacy" and the assertion that "Ricardo [set out] to define Ricardo's fundamental theorem, defended only the definitional and unimportant version of the theorem" (505). That most economists defended the inverse relationship Mark I is not at issue. It is the downplaying of Ricardo's influence which I challenge. How does M.M. explain Mathius's explicit insistence upon the "importance" of the theorem despite its "apparent obscurity"? "Of all the truths which Mr. Ricardo has established, one of the most self-evident is, that profits are determined by the proportion of the whole produce which goes to labour. It is, indeed, a direct corollary from the proposition, that the value of commodities is resolvable into wages and profits; but its simplicity and apparent obscurity do not detract from its utility" (1824 [1963] 189).

How also does he explain Torrens's initial description of the inverse relationship as "equally untenable, whether the terms alteration of wages, alteration of profits are employed with a reference to proportions, or whether they are used in relation to quantities" (1826, xiv-xv). Some tautology? Or his later concession (after reading Longfield) that since Ricardo "explained and explained correctly" the laws which regulate rent, wages and profits, under the circumstances which he assumed" he rendered important service to "the science of political economy" (1844, xxvi) or his description of the device of the "proportions-measuring money" in the derivation of the relationship as "of great practical importance" (xii). Similarly, I do not see that Moss shows Longfield to have minimized the significance of the relationship.

I cannot help noting, incidentally, that Moss himself in his own book on Longfield, at least at one point, seems to take my position on what constitutes the main theme of Ricardoan theory: "It is... ironical that, when Torrens did mention Longfield's name it was to credit him with having removed 'the main objection to... Ricardo's theory of profit' by explaining in what sense it is to be understood that wages and profits vary inversely. What a curious turn of events that Longfield, who set out to supplant the English theory of wages and profits with a new one of his own, should be hailed in England as one who defended the principal pillar of the Ricardoan theory of distribution" (1976, 120-21, my emphasis).

Moss (507) asks me to explain why Ricardo was so eager to establish that an exogenous increase in the commercial or manufacturing profit rate will be corrected to assure equality with the going rate in agricul-
fature if my argument is correct that the core of his theory is not the determination of the general rate in the agricultural sector. Surely Moss has given my answer on that same page: If the agricultural rate comes into line with the rate elsewhere the legitimacy of the inverse relationship is at stake since the general profit rate then varies without any alteration in the money wage having occurred. What more is to be said?

Moss's assertion that an innovation in textiles could have been easily accommodated by assuming that the money wage is affected (textiles entering the wage basket) is quite beside the point. If indeed textiles do enter the wage basket and the money wage falls, then certainly the general profit rate will rise—this in fact is a central argument of my book, namely that for Ricardo it is immaterial which category of wage goods varies in price. But how would the differential in rates initially presumed be corrected by a general wage reduction? Of course Ricardo did not take this route! (In any event what if manufactured wage goods are not involved?)

I am not at all convinced by Moss's observation regarding the consistency of my position and that of those who attribute the agricultural profit theory to Ricardo (509). I am fuzzy about my bed fellows. There are key experiments, the outcome of which vary totally according to the two views. For example, as I show in considerable detail (EDR, Ch. 6) technological improvement in the agricultural sector releases labour and capital for employment in other sectors which are reabsorbed elsewhere with no alteration in their respective returns in consequence of the operation of the law of markets; the price of corn falls to the lower cost level and the return in agriculture (temporarily raised) comes back into line with the given general rate. Thus, despite a change in the "margin of cultivation", the profit rate remains constant. Similarly, a rise in the price of corn might leave the money wage unchanged with labourers reducing their consumption of other goods, in which case again the profit rate is unaffected. With such a wide variety of possibilities it is quite essential not to confuse the effects on the profit rate induced by a change in the margin of agriculture itself—and I have argued there are none—and the effects of a change in the price of corn working upon the general profit rate by way of money wages. It is the attribution to Ricardo of a

fixed (real) wage assumption which precludes this essential distinction, and this assumption is the essence of the agricultural model.

IV. Ricardian economics, I have argued in EDR, has relevance quite apart from the Corn Laws (as J.S. Mill so well explained) for the inverse relation is at play no matter what the reason for a change in wages. But I do not maintain that the secular behaviour of corn prices was an irrelevant matter for Ricardo; or deny that diminishing returns constituted the key to his growth model. I simply do not believe that model to have been the Corn Model; nor does one require the Corn Model to allow a significant role to movements in the price of corn in profit-rate determination. Moss's quest for "an 'outline' on Ricardo's part for holding on to [the agricultural] theory" (508) is thus based on a false premise.