

THE WORKS
AND CORRESPONDENCE OF
DAVID RICARDO

VOLUME IV

PLAN OF THE EDITION

VOLUME

- I. Principles of Political Economy and Taxation
- II. Notes on Malthus
- III. Pamphlets and Papers, 1809–1811
- IV. Pamphlets and Papers, 1815–1823
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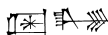
THE WORKS
AND CORRESPONDENCE OF
David Ricardo

*Edited by Piero Sraffa
with the Collaboration of M. H. Dobb*



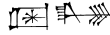
VOLUME IV

Pamphlets and Papers
1815–1823



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PAMPHLETS AND PAPERS
WRITTEN FOR PUBLICATION

1815—1823



NOTE ON 'ESSAY ON PROFITS'

UP to March 1813 both his letters and his published writings show Ricardo to have been concerned only with currency questions. By August 1813, however, the question under discussion between Malthus and himself had become the relation between the increase of capital and the rate of profits. Ricardo's letters at this time contain the essential elements of what he already calls his 'theory': that is only improvements in agriculture, or new facilities for the production of food, that can prevent an increase of capital from lowering the rate of profits.¹ At this stage, and up to March 1814, Ricardo and Malthus were not explicitly concerned with the question of the importation of corn, which had not yet aroused the public interest. The Committee on the Corn Trade, which had been appointed on 22 March 1813 and had reported on 11 May 1813, had been concerned chiefly with Ireland, and it was not until after the great fall of prices due to the huge harvest of 1813 and the further fall after the peace of March 1814 that their Report was made the occasion for the debate which, after a new Committee had reported in 1814, ended in the Corn Law of 1815.

In February 1814 Ricardo had written some 'papers on the profits of Capital' which he had shown to Malthus, Trower and Mill.² These papers have not survived, but a summary of their contents, contained in a letter to Trower of 8 March 1814, shows that the theory of profits, which was to appear in the pamphlet of the following year, was already fully developed:

'I will endeavor to state the question itself. When Capital increases in a country, and the means of employing Capital already exists, or increases, in the same proportion, the rate of interest and of profits will not fall.

'Interest rises only when the means of employment for Capital

¹ To Malthus, 17 Aug. 1813, below, VI, 94-5. In the previous letter, of 10 August, he had argued that the extension of foreign trade does not by itself increase profits. The light thrown on the origin of the

theory of profits by these two letters has been obscured hitherto by their having been misdated 1810 in *Letters to Malthus*, Oxford, 1887.

² See Trower's letter of 2 March 1814, below, VI, 102.

bears a greater proportion than before to the Capital itself, and falls when the Capital bears a greater proportion to the arena, as Mr. Malthus has called it, for its employment. On these points I believe we are all agreed, but I contend that the arena for the employment of new Capital cannot increase in any country in the same or greater proportion than the Capital itself, unless Capital be withdrawn from the land[,] unless there be improvements in husbandry,—or new facilities be offered for the introduction of food from foreign countries;—that in short it is the profits of the farmer which regulate the profits of all other trades,—and as the profits of the farmer must necessarily decrease with every augmentation of Capital employed on the land, provided no improvements be at the same time made in husbandry, all other profits must diminish and therefore the rate of interest must fall.¹

When in February 1815 Malthus's pamphlets appeared, Ricardo was able to write within a few days his *Essay on the Influence of a Low Price of Corn on the Profits of Stock*,² by using his already developed theory of profits, incorporating Malthus's theory of rent, and adding a refutation of the protectionist arguments put forward by Malthus in his *Grounds of an Opinion*.³ It was published about 24 February 1815.⁴

Ricardo's *Essay* was one of the many pamphlets which were prepared in anticipation of the debates in the House of Commons on the question of the Corn Laws.⁵ Among these pamphlets some were particularly connected with Ricardo's and it may be useful to establish the sequence of their publication. The following table is constructed mainly from publishers' advertisements in the newspapers.⁶

¹ Below, VI, 103–4.

² Referred to hereafter as the *Essay on Profits*.

³ It is remarkable that in the first half of the *Essay on Profits* there is an unusually large number of footnotes, and that most references to Malthus are contained in them: this suggests that it is the revised version of a text prepared before the appearance of Malthus's pamphlets. The second half, on the other hand,

is a direct reply to these pamphlets.

⁴ See below, p. 5, n. 5.

⁵ The debate began on 17 February and ended with the passing of the new Corn Law on 10 March 1815.

⁶ At that time there was no fixed 'day of publication'. The earliest advertisement stating 'this day is published' and giving the price of the pamphlet has been taken to indicate the date of publication.

3	February 1815	Malthus, <i>Inquiry into Rent</i> . ¹
10	" "	Malthus, <i>Grounds of an Opinion</i> . ²
13	" "	[West], <i>Essay on the Application of Capital to Land</i> . ³
24	" "	Torrens, <i>Essay on the External Corn Trade</i> . ⁴
24	" "	Ricardo, <i>Essay on Profits</i> . ⁵

Of the pamphlets that preceded Ricardo's, that of West has the most striking similarity with it. Indeed Ricardo's theory of profits is the same as West's. West says that the theory had occurred to him 'some years ago' and his pamphlet was undoubtedly published before Ricardo's. That Ricardo, nevertheless, formed his theory independently is shown by his letters to Malthus and Trower in 1813 and 1814, which contain its essential elements. Ricardo made no claim to independence in his published writings, but recorded the fact on

¹ Advertisement in *Morning Post*, 3 February. Ricardo had read the pamphlet by 6 February (see below, VI, 172). There appear to be four issues of this pamphlet, differing only in the imprint on the title-page and the advertisements on the last page.

² Advertised as 'This day is published, price 2/6' in the *Morning Post* of 10 February. It had been advertised in the same paper on 3 February as 'This day is published' price 1/6, but this was undoubtedly premature, as on 8 February another advertisement in the same paper announced it as 'In a few days will be published', no price being given: the price of 1/6 is that of all the preliminary announcements, but in fact all the copies of the pamphlet examined bear the price of 2/6, either imprinted or corrected in ink from 1/6. There is some doubt as to the exact date of publication, which may have been a few days earlier, since newspaper advertisements were often delayed: on 17 February Mr Brand in the House of Commons quoted it as having been published 'ten days

ago' (*Hansard*, XXIX, 834). What is certain is that the *Grounds* was published after the *Inquiry into Rent*: for in the three earliest issues of the *Inquiry into Rent* the *Grounds* is advertised as 'In a few days will be published, price 1s. 6d.', and in the fourth issue (which bears the imprint of Murray and Johnson) the *Grounds* is advertised as 'Just published', no price being given. Ricardo had read the *Grounds* by 13 February.

³ Advertisement in the *Morning Chronicle*, 13 February. The same paper had advertised it on 7 February as to be published 'in a few days'. Ricardo had read it by 9 March 1815.

⁴ Advertisement in *Morning Post*, 24 February. It had been advertised in *The Monthly Literary Advertiser* of 10 February as to be 'speedily' published. The preface is dated 17 Feb. 1815. Ricardo had read it by 14 March 1815.

⁵ Advertisement in *Morning Post*, 24 February. It had been advertised in the *Morning Chronicle* of 23 February as 'published this day', but no price was stated.

his own copy of West's pamphlet, which is in the Library at Gatcombe: 'This was published before my Essay on the Profits of Stock, but it never came into my hands till after I had published my Essay. D. Ricardo'.¹

All the pamphlets in question have in common the principle of rent based on diminishing returns from the extension of cultivation to inferior qualities of land; and also (all of them with the exception of Torrens's) from the employment of successive portions of capital on the same land. West certainly, and Torrens possibly,² arrived at the principle independently of Malthus; Ricardo, however, says in his Introduction that he is very much indebted to Malthus for the theory of rent, and he repeats this in his preface to the *Principles*.

The popular belief that Ricardo actually invented the theory of rent (whence the phrase 'the Ricardian theory of rent')³ derives some support from the Note on Rent in M^cCulloch's edition of the *Wealth of Nations*:⁴ 'The theory of rent...was first announced to the world in two pamphlets, published in 1815, by Mr. West, (now Sir Edward West, chief-justice of Bombay) and Mr. Malthus. A pamphlet explanatory of the same doctrine was published by Mr. Ricardo, two years after:⁵ but, although he was posterior to the authors above named, in promulgating the doctrine, and less happy in his mode of explaining it than Sir Edward West, it is well known to many of his friends that he was in possession of the principle, and was accustomed to communicate it in conversation several years prior to the publication of the earliest of these works.'

¹ See the facsimile opposite. Cp. also Ricardo's letter to Malthus of 9 March 1815 (below, VI, 179–80): 'I have read his [West's] book with attention and I find that his views agree very much with my own.'

² Torrens, in his *Essay on the External Corn Trade*, pp. x and 281, quotes Malthus's *Grounds of an Opinion*, published after the *Inquiry into Rent*.

³ Among the further consequences of this mistaken notion is that of regarding Ricardo as the origina-

tor of the whole marginal theory. 'The Ricardian law of rent...is the first great example of the marginal method, later to become the keystone of the entire Austrian system of economic theory.' (J. M. Clark, art. 'Distribution', in *Encyclopaedia of the Social Sciences*, 1931.)

⁴ Edinburgh, Black, 1828, vol. IV, pp. 124–5.

⁵ The writer here confuses the *Essay* of 1815 with the *Principles* of 1817.

As the Note was written in the main by John Stuart Mill,¹ who had presumably derived the information from his father, it might be supposed to be authoritative. There is, however, no evidence to confirm its contention. The letters of Ricardo up to the time of the publication of Malthus's *Inquiry into Rent* contain no discussion of the subject of rent.² What Ricardo had been familiar with for many years was the principle of diminishing returns on land;³ but in his letters of 1813 and 1814 he had applied this principle only to his theory of profits.⁴ This is borne out by the writer of Ricardo's obituary in the *Globe and Traveller* (Torrens's newspaper) of 16 September 1823, who, after saying that Adam Smith had left unexplained the principles of the distribution of wealth and that Malthus and West had discovered the laws of rent, adds: 'Mr. Ricardo, who appears, from frequent conversations with his friends, to have been previously investigating the effects of the gradations of soil, immediately discovered⁵ the principles which determine the rate of profit and thus completed the theory of the distribution of wealth.'

Although Ricardo opens his Introduction with the statement that in treating the subject of profits it is necessary to consider the principles of rent, the fact is that for the previous two years in his letters he had been working out his theory of profits without ever finding it necessary explicitly to mention rent. Indeed, the theory of profits presented in the pamphlet adds little to what was already

¹ See an entry in MS list of published writings of J. S. Mill, in the Mill-Taylor papers in the Library of the London School of Economics: '1827. A dissertation on Rent, in the notes subjoined to MacCulloch's edition of Smith's *Wealth of Nations*. Some parts of this note were however altered by MacCulloch.' [The list has been printed as *Bibliography of the Published Writings of J. S. Mill*, ed. by N. MacMinn and others, Northwestern University, Evanston, Ill., 1945; the item in question is mistaken by the editors for M^cCulloch's Note on Taxes on Rent.]

² The letter to Malthus of 6 Feb. 1815, however, refers to some discussion of rent between them at an earlier time: see below, VI, 173.

³ He stated it as early as 1810 or 1811 in his Notes on Bentham, above, III, 287.

⁴ It is remarkable that West also, in the first 48 pages of his pamphlet, applies the principle of diminishing returns on land exclusively to the theory of profits: it is only in the last 7 pages that he applies it to rent.

⁵ It was Ricardo's publication of the theory of profits, rather than his discovery of it, that followed Malthus's pamphlet.

contained in his letters of 1813 and 1814, before his attention had been directed to the connection between rent and profits.¹

A 'Second Edition' of the *Essay on Profits*, also published in 1815, contains no alterations, not even the correction of misprints, and would be more accurately described as a reprint. As the same type appears to have been used, it probably followed the first edition within a few days.

In the summer of 1815 Ricardo was considering the preparation of a revised edition of the *Essay on Profits*. On 18 August he wrote to Say: 'Mr. Mill wishes me to write it over again more at large. I fear the undertaking exceeds my power.' He started work on the project, but it finally took shape, not as a new edition of the pamphlet, but as the *Principles of Political Economy, and Taxation*.²

¹ 'The law of rent came into Ricardo's system, *not as a basis, but as a better proof of a theory already developed.*' (S. N. Patten, 'The Interpretation of Ricardo', in *Quarterly Journal of Economics*, April 1893, vol. VII, p. 329.)

² In the early editions of his *Life and Writings of Mr. Ricardo*, McCulloch emphasised the connection between

the two works: 'This Essay is particularly worthy of attention, as it contains a brief statement of some of the fundamental principles subsequently demonstrated in the "*Principles of Political Economy and Taxation.*"' But in the later versions (including the one prefixed to Ricardo's *Works*, 1846) he omitted this passage.

INTRODUCTION

IN treating on the subject of the profits of capital, it is necessary to consider the principles which regulate the rise and fall of rent; as rent and profits, it will be seen, have a very intimate connexion with each other. The principles which regulate rent are briefly stated in the following pages, and differ in a very slight degree from those which have been so fully and so ably developed by Mr. Malthus in his late excellent publication,¹ to which I am very much indebted. The consideration of those principles, together with those which regulate the profit of stock, have convinced me of the policy of leaving the importation of corn unrestricted by law. From the general principle set forth in all Mr. Malthus's publications, I am persuaded that he holds the same opinion as far as profit and wealth are concerned with the question;—but, viewing, as he does, the danger as formidable of depending on foreign supply for a large portion of our food, he considers it wise, on the whole, to restrict importation. Not participating with him in those fears, and perhaps estimating the advantages of a cheap price of corn at a higher value, I have come to a different conclusion. Some of the objections urged in his last publication,—“Grounds of an Opinion,” &c.² I have endeavoured to answer; they appear to me to be unconnected with the political danger he apprehends, and to be inconsistent with the general doctrines of the advantages of a free trade, which he has himself, by his writings, so ably contributed to establish.

¹ *An Inquiry into the Nature and Progress of Rent, and the Principles by which it is Regulated*, London, Murray, 1815.

² *The Grounds of an Opinion on the Policy of Restricting the Importation of Foreign Corn*. London, Murray, 1815.

ON THE
INFLUENCE, &c.

MR. Malthus very correctly defines, “the rent of land to be that portion of the value of the whole produce which remains to the owner, after all the outgoings belonging to its cultivation, of whatever kind, have been paid, including the profits of the capital employed, estimated according to the usual and ordinary rate of the profits of agricultural stock at the time being.”¹

Whenever, then, the usual and ordinary rate of the profits of agricultural stock, and all the outgoings belonging to the cultivation of land, are together equal to the value of the whole produce, there can be no rent.

And when the whole produce is only equal in value to the outgoings necessary to cultivation, there can neither be rent nor profit.

In the first settling of a country rich in fertile land, and which may be had by any one who chooses to take it, the whole produce, after deducting the outgoings belonging to cultivation, will be the profits of capital, and will belong to the owner of such capital, without any deduction whatever for rent.

Thus, if the capital employed by an individual on such land were of the value of two hundred quarters of wheat, of which half consisted of fixed capital, such as buildings, implements, &c. and the other half of circulating capital,—if, after replacing the fixed and circulating capital, the value of the remaining produce were one hundred quarters of wheat, or of equal value with one hundred quarters of wheat, the neat profit to the owner of capital would be fifty per cent. or one hundred profit on two hundred capital.

¹ *Inquiry into ... Rent*, pp. 1–2.

For a period of some duration, the profits of agricultural stock might continue at the same rate, because land equally fertile, and equally well situated, might be abundant, and therefore, might be cultivated on the same advantageous terms, in proportion as the capital of the first, and subsequent settlers augmented.

Profits might even increase, because the population increasing, at a more rapid rate than capital, wages might fall; and instead of the value of one hundred quarters of wheat being necessary for the circulating capital, ninety only might be required: in which case, the profits of stock would rise from fifty to fifty-seven per cent.

Profits might also increase, because improvements might take place in agriculture, or in the implements of husbandry, which would augment the produce with the same cost of production.

If wages rose, or a worse system of agriculture were practised, profits would again fall.

These are circumstances which are more or less at all times in operation—they may retard or accelerate the natural effects of the progress of wealth, by raising or lowering profits—by increasing or diminishing the supply of food, with the employment of the same capital on the land.*

* Mr. Malthus considers, that the surplus of produce obtained in consequence of diminished wages, or of improvements in agriculture, to be one of the causes to raise rent. To me it appears that it will only augment profits.

“The accumulation of capital, beyond the means of employing it on land of the greatest natural fertility, and the greatest advantage of situation, must necessarily lower profits; while the tendency of population to increase beyond the means of subsistence must, after a certain time, lower the wages of labour.

“The expense of production will thus be diminished, but the value of the produce, that is, the quantity of labour, and of the other products of labour besides corn, which it can command instead of diminishing, will be increased.

“There will be an increasing number of people demanding subsistence,

We will, however, suppose that no improvements take place in agriculture, and that capital and population advance in the proper proportion, so that the real wages of labour, continue uniformly the same;—that we may know what peculiar effects are to be ascribed to the growth of capital, the increase of population, and the extension of cultivation, to the more remote, and less fertile land.

In this state of society, when the profits on agricultural stock, by the supposition, are fifty per cent. the profits on all other capital, employed either in the rude manufactures, common to such a stage of society, or in foreign commerce, as the means of procuring in exchange for raw produce, those commodities which may be in demand, will be also, fifty per cent.*

If the profits on capital employed in trade were more than fifty per cent. capital would be withdrawn from the land to be employed in trade. If they were less, capital would be taken from trade to agriculture.

and ready to offer their services in any way in which they can be useful. The exchangeable value of food will therefore be in excess above the cost of production, including in this cost the full profits of the stock employed upon the land, according to the actual rate of profits, at the time being. And this excess is rent.”—*An Inquiry into the Nature and Progress of Rent*, page 18.

In page 19, speaking of Poland, one of the causes of rent is again attributed to cheapness of labour. In page 22 it is said that a fall in the wages of labour, or a reduction in the number of labourers necessary to produce a given effect, in consequence of agricultural improvements, will raise rent.

*It is not meant, that strictly the rate of profits on agriculture and manufactures will be the same, but that they will bear some proportion to each other. Adam Smith has explained why profits are somewhat less on some employments of capital than on others, according to their security, cleanliness, and respectability, &c. &c.¹

What the proportion may be, is of no importance to my argument, as I am only desirous of proving that the profits on agricultural capital cannot materially vary, without occasioning a similar variation in the profits on capital, employed on manufactures and commerce.

¹ *Wealth of Nations*, Bk. I, ch. x, pt. i; Cannan's ed., vol. I, pp. 102–20.

After all the fertile land in the immediate neighbourhood of the first settlers were cultivated, if capital and population increased, more food would be required, and it could only be procured from land not so advantageously situated. Supposing then the land to be equally fertile, the necessity of employing more labourers, horses, &c. to carry the produce from the place where it was grown, to the place where it was to be consumed, although no alteration were to take place in the wages of labour, would make it necessary that more capital should be permanently employed to obtain the same produce. Suppose this addition to be of the value of ten quarters of wheat, the whole capital employed on the new land would be two hundred and ten, to obtain the same return as on the old; and, consequently the profits of stock would fall from fifty to forty-three per cent. or ninety on two hundred and ten.*

On the land first cultivated, the return would be the same as before, namely, fifty per cent. or one hundred quarters of wheat; but, the general profits of stock being regulated by the profits made on the least profitable employment of capital on agriculture, a division of the one hundred quarters would take place, forty-three per cent. or eighty-six quarters would constitute the profit of stock, and seven per cent. or fourteen quarters, would constitute rent. And that such a division must take place is evident, when we consider that the owner of the capital of the value of two hundred and ten quarters of wheat would obtain precisely the same profit, whether he cultivated the distant land, or paid the first settler fourteen quarters for rent.

*Profits of stock fall because land equally fertile cannot be obtained, and through the whole progress of society, profits are regulated by the difficulty or facility of procuring food. This is a principle of great importance, and has been almost overlooked in the writings of Political Economists. They appear to think that profits of stock can be raised by commercial causes, independently of the supply of food.

In this stage, the profits on¹ all capital employed in trade would fall to forty-three per cent.

If, in the further progress of population and wealth, the produce of more land were required to obtain the same return, it might be necessary to employ, either on account of distance, or the worse quality of land, the value of two hundred and twenty quarters of wheat, the profits of stock would then fall to thirty-six per cent. or eighty on two hundred and twenty, and the rent of the first land would rise to twenty-eight quarters of wheat, and on the second portion of land cultivated, rent would now commence, and would amount to fourteen quarters.

The profits on all trading capital would also fall to thirty-six per cent.

Thus by bringing successively land of a worse quality, or less favourably situated into cultivation, rent would rise on the land previously cultivated, and precisely in the same degree would profits fall; and if the smallness of profits do not check accumulation, there are hardly any limits to the rise of rent, and the fall of profit.

If instead of employing capital at a distance on new land, an additional capital of the value of two hundred and ten quarters of wheat be employed on the first land cultivated, and its return were in like manner forty-three per cent. or ninety on two hundred and ten; the produce of fifty per cent. on the first capital, would be divided in the same manner as before forty-three per cent. or eighty-six quarters would constitute profit, and fourteen quarters rent.

If two hundred and twenty quarters were employed in addition with the same result as before, the first capital would afford a rent of twenty-eight; and the second of fourteen quarters, and the profits on the whole capital of six hundred

¹ Misprinted 'in'; corrected by Ricardo in his copy at Gatcombe.

and thirty quarters would be equal, and would amount to thirty-six per cent.

Supposing that the nature of man was so altered, that he required double the quantity of food that is now necessary for his subsistence, and consequently, that the expenses of cultivation were very greatly increased. Under such circumstances the knowledge and capital of an old society employed on fresh and fertile land in a new country would leave a much less surplus produce; consequently, the profits of stock could never be so high. But accumulation, though slower in its progress, might still go on, and rent would begin just as before, when more distant or less fertile land were cultivated.

The natural limit to population would of course be much earlier, and rent could never rise to the height to which it may now do; because, in the nature of things, land of the same poor quality would never be brought into cultivation;—nor could the same amount of capital be employed on the better land with any adequate return of profit.*

The following table is constructed on the supposition, that the first portion of land yields one hundred quarters profit on a capital of two hundred quarters; the second portion, ninety quarters on two hundred and ten, according to the foregoing calculations.† It will be seen that during the pro-

* In all that I have said concerning the origin and progress of rent, I have briefly repeated, and endeavoured to elucidate the principles which Mr. Malthus has so ably laid down, on the same subject, in his "Inquiry into the Nature and Progress of Rent;" a work abounding in original ideas,—which are useful not only as they regard rent, but as connected with the question of taxation; perhaps, the most difficult and intricate of all the subjects on which Political Economy treats.

† It is scarcely necessary to observe, that the data on which this table is constructed are assumed, and are probably very far from the truth. They were fixed on as tending to illustrate the principle,—which would be the same, whether the first profits were fifty per cent. or five,—or, whether an additional capital of ten quarters, or of one hundred, were