

### RICARDO'S VIEWS ON DEVELOPMENT

— Ricardo considers agriculture as the most important sector of the economy. The difficulty of providing food to an expanding population is the main problem. He could not appreciate fully the role of technology in increasing agricultural productivity. According to him, there are three major groups on the economic scene—capitalists, labourers and landlords. It is the capitalists who initiate the process of economic development in the society by



reinvesting profits and thus increasing capital formation. Capital accumulation is the spark setting off a series of reactions which result in the growth of national income.

In order to understand Ricardo's vision of development process, we must consider the distinction between 'gross revenue' and 'net revenue.' Gross revenue is the market value of the final commodities produced during a particular period of time. Net revenue is equal to gross revenue minus the value of commodities needed to sustain labour and capital. The net revenue is the surplus available for further growth of output. It is the only source of capital formation and unless it exists no progress is possible. According to classical writers, labour produces a surplus and hence progress is possible. But development will occur only if the net revenue is employed for further capital accumulation. This is why capitalist class is so important for economic development.

#### ROLE OF FACTORS OF PRODUCTION

Ricardo proceeds with a general theory of the behaviour of rent, wages and profits during the development process. The growth in population and in capital stock causes an increase in the absolute amount of rent in terms of agricultural output. A greater amount of labour is required to produce the additional units of agricultural commodities whereas the production of the additional manufactured goods require the same amount of labour and hence the price of agricultural commodities rises in terms of manufactured goods. According to Ricardo, in determining the division of produce between different factors of production, wages play an active role. Profits depend on high or low wages and nothing else. Wages are determined by the subsistence of labour. Wages must rise as the production of food is subject to diminishing returns and it constitutes an important item of their subsistence. The rate of profit therefore tends to fall as population grows and capital accumulated. Thus, in a developing society rate of profit tends towards zero.

#### STAGNATION

Capital accumulation takes place continuously as long as the rate of profit is above some minimal level, and population continues to grow as long as the workers receive a real wage above their customary minimum. Since food is the most important component of a worker's budget, greater cost of subsistence causes the money wages to increase. This squeezes the profit rate in agriculture and industry. Lower rate of profit reduces the rate of capital formation since capital accumulation depends on the rate of profit. In turn, the rate of growth of national income also declines.



Finally, when the rate of profit becomes so low that it does not afford adequate compensation for trouble and risk involved in additional capital accumulation, the economy becomes stationary. Capital accumulation and population growth ceases and no further progress is possible. Thus, according to Ricardo, due to the niggardliness of nature, the process of development shifts the relative shares of various economic groups in such a way that the very source of capital accumulation declines and reaches an insignificant level and growth ceases.

✓ The main contribution of Ricardian analysis of the development process can be summarised thus :

- ✓ (1) Ricardian system asks the fundamental question, how do relative income shares behave as development takes place.
- ✓ (2) It views the economy in dynamic terms, the economy is taken to be ever changing till the stationary state emerges.
- ✓ (3) It focuses attention on the major variables of capital accumulation like population, profits, wages and rent.