Ricardo, Marx, Keynes: Distinct Economic Visions?

Jesus G. Muñoz Bandala
University of Lancaster, United Kingdom
✉ jesumunoz_ban@yahoo.com

Abstract
The objective of this article is to test the relevance of the theory of David Ricardo (1772-1823) from the perspective of the history of economic thought, mainly in terms of individual viewpoints. Some of Ricardo’s contributions were either rejected or enlarged by two of his most outstanding successors in economics: Karl Marx (1818-1883) and John Maynard Keynes (1883-1946). These two economists are chosen due to the relevance of Ricardo’s insights for their respective cores. Marx’s theories are based on the Ricardian political economy, but the German philosopher, being the creator of an alternative view of economics contributed instead to a radical interpretation of the class struggle which permeated his view of unequal income distribution. Keynes’s macroeconomic theories are based on a rejection of the Ricardian economics, favoring instead the insights of Ricardo’s contemporary, Thomas Malthus. The shift of focus is obvious since Keynes, unlike Ricardo and Marx, was concerned on income determination rather than income distribution. We can ask ourselves whether some of the main Ricardian contentions were rejected in and of themselves or because the passage of time changes everything. In the brave new world of the late 19th century the world had become more interconnected with global financial and productive flows. Ricardian theory could not have anticipated some of the issues that would face advanced capitalist societies.

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JEL classifications: B12, B24, B41, B51, P16
Introduction: Classical Economics

Ricardo represents one of the pillars of Classical political economy since he produced insights on the essence and the functioning of the system, setting a realistic base to describe the anatomy of a society by distinguishing its members into different groups such as workers, capitalists and landowners. As it is widely known, Ricardo created his theories in the footsteps of Adam Smith (1723-1790), who emphasized the advantages of a free-market system, based on the notions of Laissez-faire (scarce intervention of the government on the economy), individual liberty, efficiency, market specialization and the profit motive. Smith’s vision would complement that of Utilitarianism, founded by Jeremy Bentham (1748-1832), for whom benefits must be larger than costs in any decision-taking. Smith is the creator of microeconomics in 1776 with his book *The Wealth of Nations*, synthesizing all previous theories but providing a new vision. Ricardo’s main contribution apart from new insights, often not in line with Smith’s theoretical conclusions, was his systematic approach that helped shape the core of Classical Political Economy.

*The Classical SRP*

The Classical SRP is a result of (or a parallel event to) the French Enlightenment (1789), rationalism (born in the epoch of Descartes, 1596-1650) and the Industrial Revolution (1760-1830). The Classical core assumes the existence of a closed atomistic (entities had no complex interrelations amongst them) and heuristic system, grounded on microeconomic concepts, especially the arbitrage among prices, including the belief in wage flexibility for alleviating unemployment, where disequilibria are a temporary anomaly.

Methodological individualism underlies the micro-theory of demand-supply. In other words, individual choice is conducted in the framework of timeless and ubiquitous markets assuming that rationality is universal. The Classical message is conservative ignoring social facts.

In Classical economics celestial harmony denies the existence of heterogeneous human actions. Thus, the Classical SRP reflects the certainty prevailing in physics, ignoring that human beings are mobile in terms of time and space. The consequence is that the Classical SRP is equated with self-regulating atomistic (Newtonian) markets, wherein perfect rationality leads to free competition. There, time is only a logical category. The consequence is that money is an illusion.
We should mention at least two other outstanding Classical economists, Robert Malthus (1766-1834) and Jean-Baptiste Say (1767-1832). They believed in a perfect double-sided system, in the context of a barter economy where money is a veil only useful for conducting transactions but not as an asset of value, although at least Malthus, to his credit, had had some suspicions about this harmony.

Later Classical economists (whose core is akin to the Classical) are John Stuart Mill (1806-1873) with interest on stationary states, and Leon Walras (1834-1910) the creator of General Equilibrium. We can also mention William S. Jevons (1835-1882) with an emphasis on mathematical methods, and Alfred Marshall (1842-1924) who gave a further impulse to microeconomics within the Ricardian core, which is dealt with in the next section.

**David Ricardo and systematization**

Ricardo systematized political economy 50 years after Smith. His ideas were formed during the Napoleonic Wars, when profits and the government size were the principal problems. Ricardo’s ideas are the value theory of labor; the societal division among rent, wages and profits, and class struggle; comparative advantage; and a formal theory of trade. Ricardo’s topics are distribution; money; and the Ricardian equivalence. The problems Ricardo tackled are those of value, distribution and the issue of technology in production. The treatment of these themes is now outlined.

**Ricardo’s Theory of Labor Value (LTV)**

Ricardo questioned the then-sacred role of the landowners as the creators of wealth hinting to the existence of workers’ exploitation. His ‘Iron Wages Law’ states that wages fluctuate around subsistence levels rather than being competitive as in Smith. He contended that even in modern societies it is labor which gives value to commodities. Then, Ricardo created a theory of value and distribution, wherein value refers to the treatment of the determinants of the prices of production.

Ricardo started out from the determination of the relative (exchange) values paying heed to the quantity of labor embedded in them, but he did not examine the form of labor that creates exchange value. Hence, he did not grasp out the connection between labor and money. This might have been since Ricardo was only concerned about the magnitude of value. Perhaps for
this reason, his method is deficient in proving the congruity of the economic categories with one another.

Ricardo believed in the law of marginal returns but considered rents as an unearned surplus since they do not replenish anything as land is given and not a producible commodity. Given the youth of political economy at that time and the richness of his other insights Ricardo produced complex conclusions.

Ricardo integrated the theories of value and distribution since the rewards to both laborers (wages) and capitalists (profits) defined the distribution of wealth, although value arises from labor and is hence independent from distribution. Rent is thus a residue.

However, there is something special about this theory in terms of implications. If capital is accumulated, the ratio \( K/L \) (capital/labor) varies across industries as well as profits. Thus, the labor theory of value (LTV) only works if capital intensity is homogeneous across industries, but Ricardo did not find an average commodity for setting value.

**Income Distribution in Ricardo**

Ricardo’s theory of distribution decomposed product or total profits into wages, profits and rents, wherein the relation between wages and profits would be balanced by the interplay of arbitrage. Ricardo’s model is: Prices = \( w + \pi \), where \( P \) (prices) determines rent.

Labor \( (L) \) is thus the determinant of \( P \) but as \( K/L \) across industries is heterogeneous, there is a dis-proportionality between \( P \) and \( L \) time (value). Ricardo’s theory of profits is based on his corn models, where:

\[
\text{(1) Profit rate} = \frac{\pi}{X}
\]

\( X = \text{wages, Net product} = \text{total profit (}\pi\text{)} \)

Now the interesting part is that for Ricardo the profit rate may fall in the short run, but technology keeps it from falling in the long run. For both Smith and Ricardo, the average rate of profit would diminish, in Smith due to competition, but for Ricardo only if wages were increased due to an increase of agricultural products prices. Of course, on the other hand technological advances in agriculture could stifle agricultural prices.

Ricardo considered corn to be the standard of value for being both an input and an output. Both direct and indirect labor were used in the creation of products. The problem was that
the empirical evidence on the falling rate of profit (a concept celebrated by Marx as triggering factor of crises) did not support the theory.

Still Ricardo’s $LTV$ is not rigidly true. He attempted to demonstrate that profits and wages were independent with the implication that the profit rate may rise at an increasing rate. Surpluses must compensate each other, wherein surpluses are considered as deviations of natural prices from labor values. Taxation affects both capital accumulation and profit rates, unless, of course, the subject of taxation are workers’ wages in which case those funds may go towards additional capital formation.

Ricardo viewed rent as a portion of national income that accrues to owners of scarce resources and as such only benefits individuals and not the whole economic system. As real wages increase, real profits fall, as the revenues from the sale of manufactured goods are split into profits and wages. This is because profits depend on wages, wages on the price of necessaries, and the price of necessaries chiefly on the price of food. The only restriction for profitability in investment lies in diminishing returns to scale in agriculture, which requires rents increases.

Thus, harmony is fictional. There are contradictions between the apparent and the actual movements of the system. Ricardo exposes the contradictions between the classes as shown by intrinsic relations, discovering the root of the historical struggle for development.

Ricardo ascertains that Smith attributes the fall of profits to capital accumulation, and to the resulting competition, but the fall is due to an increase in rents. For Ricardo a fall in profits is not necessarily a consequence of a change in capital accumulation. Labor is the unique input for him (like for Marx) and rent grows as population increases (given the land stock and productivity in agricultural production).

Economic events have different effects on different classes. The dismal science was born out of Malthusian predictions regarding the disparity between the increase in population and food supplies. Food prices were too high in the times of Ricardo, but the capitalists wanted cheap grain which was not convenient for the landowners.

Nevertheless, if rent is excessive, profits fall short and so does capital accumulation. Rent is a special kind of return that increases the costs of production. Increases in population augment the cost of producing grain and wages must rise.

Capitalists may be squeezed by rent and are prone to disappear or industrialization may be inhibited by the high levels of rent. For Ricardo, rents increase due to the different qualities of land. Ricardo’s theories of $LTV$ and distribution are the basis of his subsequent theories.
of capital accumulation, technical progress (on the machinery question linked to technological unemployment), development, taxation and debt.

**Trade**

Ricardo views trade as a function of the relative costs of production and the structures of prices \( P \). The purpose of trade is not to accumulate gold or silver but facilitating industry specialization which brings about more trade. Trade is mutually beneficial with comparative advantage at its nucleus.

However, Ricardo forgot that local accumulation fostered the Industrial Revolution in England. Free trade does not benefit every country since it takes time to absorb new technologies. Further, comparative advantage only applies where capital is immobile, and production is neither continuous nor absolute. Finally, not all goods are tradable.

On the other hand, protectionism would rise rents (in agricultural terrains), profits going away from industry. He advocated free trade as it would reduce the price of grains reducing wages, increasing profits and enhancing growth via industrial specialization.

Ricardo discusses the possibility of technological unemployment, wherein trade is the solution. Goods are mobile unlike capital. In this way trade produces wealth since it reduces costs. \( LTV \) does not hold across countries because of immobility. For him, money and credit are related to prices and it is this nucleus that forms exchange rates, determining gold flows. For Ricardo the economy is static, but he believed in convergence in terms of countries’ development levels through the channel of trade.

**Additional insights**

In Ricardo, aggregate demand cannot be deficient since he believes in Say’s Law (supply creates its own demand, in Keynes’s words), and it does not affect the ability of the system to reach full employment. In a self-consumption economy there exists no scarce information and there are no general gluts in the commodities markets (only temporary and partial). In Ricardo’s view the solution for deficiencies in aggregate demand are reductions in wages or the interest rate.

Malthus, like Ricardo was also as non-monetary economist. However, he noticed that if we leave money out of the picture, Ricardo’s argument seems unanswerable and aggregate
investment justifies itself by creating a demand for its product. The only reason for the fall of profits is a rise in wages (a distributional problem). Ricardo thus objects to the projection of a micro-conception onto the macro level.

This is however an illusion. The Malthus-Ricardo debate was conducted on the terrain of a barter economy, since deep issues on the interest rate and money were not present. Additionally, the Ricardian analysis concerned itself with the long-period equilibrium, a situation which is never realized.

Ricardo was an early believer in the Quantity Theory of Money (‘QTM’). This is related to the neutrality of domestic prices and money, and to free trade. He also wrote on the stability of the currency and on the national debt. He contended that increases in the money supply entailed increases in the price level further validating Say’s Law.

His method was purely deductive, something which cannot be said for Keynes and Ricardo. His Principles of Political Economy and Taxation (1817) were full of abstract principles, prototypes and laws of behavior (physicalism). The interactions among classes could almost be said to follow the laws of physics.

Assessment

Unsurprisingly Ricardo never criticized the assumptions of political economy, being himself one of its founders, but we must nevertheless be aware that his system relies on a perfect order. He believed that saving was automatically identical to expenditure, considering capital accumulation as essential in the long-run process, driven by profit seeking supported by competition and individualism with modest public interventions.

For Ricardo, Smith and Malthus, the working class is essentially passive (like in Keynes). Ricardo has little explicit social philosophy. However, he was an innovative systematizer of economics. Ricardo was a Benthamist, Benthamism preaches utilitarianism as the leitmotiv of human existence which is mere calculation of pleasure for the individualistic man in an atomic social system.

Ricardo was also concerned on the payment of the national debt through a tax on property, this is the Ricardian Equivalence Theorem. Taxes will be paid for not leaving holes for next generations, although this would mean that fiscal policy would be unable to increase employment.
“On machinery” is a special chapter in Ricardo’s main book (1917) dealing with the laws regulating the distribution of income among social classes. According to socialist thought, Ricardo’s theories had radical implications. Let’s turn to Marx’s stance on these issues.

**Marx’s stance on society’s functioning**

Marx’s ideas may be useful to change the world in view of the existence of rapid social change. He had new ideas in terms of his conceptions of the State, of globalization and of the individual. Historical materialism is at the core of Marxism. This takes us back to Ricardo since Marx’s central assumption is that social changes must be explained in terms of class struggles, wherein the (historical) economic basis of society determines the nature of social classes and struggles.

Marx borrowed concepts from three main sources. His first source is Ricardo, the second one is Classic German Idealistic Philosophy mainly from Hegel, a strand which had a huge impact on science. Marx relied on the emphasis of Hegel (1770-1831) on history, the State and alienation as well as on the work of Ludwig Feuerbach (1804-1872). Then Marx turned them upside down, modifying the path of Western philosophy. Finally, Marx improved the concept of utopian socialism, viewing Socialism as a social-historical product.

**Marx’s version of LTV**

Marx rejected the “classic” concepts of *Laissez Faire*, the Invisible Hand, the atomistic (as opposed to the organicist) view of the economy and the existence of a self-regulating system, in both universal and eternal terms. Marx critiqued the core of Classical British political economy mainly through the revision of the analysis of labor value of Ricardo.

Marx took from Ricardo the concept of social classes but assumed that the capitalists were the winners, rather than the landowners. However, Marx uses the labor theory of value for doing theories of surplus value. In his view, the Classics had conveniently forgotten certain inconvenient truths, such as the accumulation of surplus labor time produced by one group in the hands of another.

According to Marx the theories of vulgar economists hid commodity fetishism under a theoretical shroud and foster the illusions created by competition. He related value to an abstract measure of the value of the output of society: Money. Both Ricardo and Marx had a
theory for class struggle, but whereas Ricardo ascertained that money went to the rich people’s pockets Marx thought that capitalistic exploitation would lead the workers to stand up. Surplus and crises are the determinants of the unavoidable fall of capitalism. In some sense it could be said that Ricardo had already understood the seeds of the destruction.

**Surplus**

For Marx, the equation: \( \pi = c + v + s \) (\( C = \) fixed capital, \( v = \) variable capital or labor, \( s = \) surplus) explains the nature, evolution and origin of profits (wherein a redistribution of surplus values would occur). The key difference is that for Marx wages can only rise if exploitation as sustained by surplus extraction is increased.

For Marx, the equation is: \( \pi = s/v/(c+v)+1 \), where \( c/v \) (the organic composition of capital) rises as more machinery must be used due to rising competition among capitalists and the rate of profit diminishes, which is prevented by an increase in surplus value caused by exploitation of \( L \) through reducing wages or due to capital cheapening.

Therefore, Marx changes the object of study, the method, the subject of study and introduces the historical element when analyzing the origin of surplus value as the cause of distributional inequalities. Ricardo only quantified labor (which he saw as an abstract category), but did not examine its intrinsic properties and dynamics, thereby neglecting their general social and specific historical character.

Thus, for Marx the bourgeois mode of production is a concrete form of social relations framed under specific historical stages of development where the basic unit is not the individual like in Ricardo but society. For Marx, the capitalists are active in intensifying the exploitation rate. For Ricardo the average rate of profit could only fall if wages rose, but for Marx it exhibited a diminishing tendency due to structural reasons. Recall that for the Classical and the Neoclassical Economists wages are determined in the labor market.

For Marx, the means of production are highly relevant, and the class struggle produces inherent instability. For him, the capitalist economies are not self-correcting. He would also deny the possibility that the ratio \( K/L \) could be equalized among industries, indeed this would reduce profit rates and the capitalists would have to be based on surpluses or new markets. Still Marx finds the ideal commodity in money, commodities being his original object of study.
Money for Marx

Marx would produce new insights in the ontological theme by contending that man is part of an organic social system whose aims go beyond the profit motive as the representation of pleasure. Commodities are transformed into money.

Marx recognized and better understood the role of money unlike Ricardo who had analyzed a barter economy. The cause is that due to homogeneities in production levels and the issue of time in production the only invariable measure of value, for better or for worse, was money. The rate of profit was non-natural for Marx. For him it falls due to increasing wages, diminishing returns in capital versus labor or intensified competition of capitals. The Smithian view of infinite expansion and a perfectly harmonised system is thus prevented by the landlords for Ricardo and by the capitalists for Marx, who were rapidly becoming financers. And this is where Keynes, a monetary economist if ever there was one, enters the picture.

The middle-way attitude of Keynes

Keynes (1883-1946) had been able to craft macroeconomics with both uncertainty and money at its very. He was a philosopher of economics who rejected the simplified Classical (Smithian) notions of Laissez Faire, the invisible hand, the atomistic individual and view of the economy, representing a natural Cartesian order, physicalism, a self-regulating system and the “old” perception of full employment (‘FE’) as a microeconomic phenomenon related to wage levels.

In the Neo-classical core entrepreneurs and investors were homogeneous, symmetrical, atomistic and rational, and hence equilibrium exists, neglecting the role of money in shaping economies. Economics was based on rationalism, atomism and the notion of *homo economicus*, which are taken from the natural sciences. But Keynes rejects this approach.

What made Keynes different from the Classics

In Keynes similar as in Ricardo the system tends to be disordered but in terms of short-period equilibrium rather than on distribution or social classes. Keynes’s concern was involuntary unemployment. Aggregate demand (AD) determines national income (Y) via investment but there is no guarantee that this process leads to full employment. And since we live in a complex and uncertain world and he viewed money as a crucial store of value linking not just

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1 However, Keynes was an admirer of Newton’s atomistic work on physics.
the real and the monetary sectors, but essentially as a social construct that makes it possible to organize intertemporal production.

In this context, Keynes’s key concepts were the ineffectiveness of price flexibility for curing unemployment; the irrelevance of wages as an equilibrating factor (Chapter 18 of *GT*); uncertainty (Skidelsky, 2009), the instability of investment (I) due to asymmetric expectations; and the disparity between savings and investment (Heilbroner, 1951). Keynes is thus a monetary economist contending that the Classical and the Neoclassical economists were living behind the times when they neglected unemployment as triggered by the disturbing impact of money on aggregate demand.

For Keynes, Ricardo’s theories of value and distribution are at the Classical Core laying emphasis upon on proportions of the national product (income or GDP) rather than on its size, as he stated: “The Ricardian tradition had dominated theory and policy for over a century” (Keynes, 1936, VIII, p. 32). Keynes concerned himself with the issue of income determination (size and movements).

Keynes also generated rich insights in terms of political economy, especially in Chapter 24 of *GT* (1936), presenting what could be called mild reforms of the system. There he condemned the rentiers but advocated public intervention to foster adequate effective demand. Keynes found fault with Ricardo on the issue of the classical theory of interest, which affirmed to Keynes that Ricardo was trapped by the illusion of Say’s Law, thereby being unable to see the possibility of general gluts taking place.

Keynes was not interested in profits (he was before 1936), distribution, regions or sectors. However, he was interested in accumulation since it may bring about gluts.

For Keynes the profitability in investment represents the combined effect of the levels of the schedule of the marginal efficiency of capital and that of the monetary interest rate. Production is potentially limited by demand whenever the interest rate is too high to generate a level of investment corresponding to full-employment saving.

**Money and crises**

Keynes’s critique of Say’s Law hinges on interest and money (which are absent in a barter economy), with money not only being useful for transactional purposes but representing a store of value as well. Keynes stated that Malthus was dealing with a monetary system, unlike Ricardo whose theoretical apparatus would not let him address the issue of a general glut.
Keynes like Marx considered that money possessed another essential property: It is an asset of value as it is the only commodity that reproduces itself in a non-arithmetic form. Money determines interest rates, which define investment levels, which in turn determine aggregate demand and employment in the event of gluts. This systematization is distinct to that of both Ricardo and Marx. Keynes is concerned on the effects of investment instability. On the other hand, Keynes never wrote about the ratio $K/L$ across industries.

No crises exist for Ricardo but a secular trend leading to the stationary state, whereas in Keynes one can find underemployment and stagnation. For Keynes, wages depend on aggregate demand. For him, the organicist economy is not self-regulating, like in Marx.

Keynes was an inductivist (Ricardo was a deductivist) and a believer in organicism where every variable is related to any other in multidirectional forms in an aggregate system. The basic unit in Keynes is the nation’s economy. Finally, Keynes (like Marx) rejected utilitarianism. Keynes sustained that human beings are not crass machines, contending that man goes beyond the simple calculus of benefits and costs advocating ethical values and the use of probability theory regarding decision taking.

**Conclusions on the rejections of Marx and Keynes to the Ricardian SRP**

Rejections must be interpreted in the context of falsifications or improvements in $SPRs$, wherein improvements are not only due to the simple fact that later thinkers possess more knowledge and operate in wider systems.

This article is focused upon the analysis of Ricardian economics under the perspective of the Karl Marx and John Maynard Keynes. Ricardo passed from the theory of distribution to the theory of growth, the latter being based on saving, profit accumulation and trade, but growth would have a limit leading to a stationary state (to a definitive failure of the system according to Marx, to unemployment in accordance to Keynes).

Ricardo’s and Smith’s long-period method regards prices as natural rather than affected by short-term market events. Ricardo had also reduced interest as a part of profits and land rent to an excess of average profits. For Marx those categories fell then into the realm of surplus, and for Keynes interest was a monetary rather than an industrial phenomenon. At Ricardo’s time the financial system was not relevant even though he himself was a successful financier.

Ricardo lacks historicism as his categories in political economy, specifically on bourgeois production, are both universal and ubiquitous. Marx explains the development of social
productive forces in historical terms. Keynes describes their evolution throughout history but is focused on macroeconomic events, especially booms and busts.

Ricardo starts with value, Marx with commodities and Keynes with unemployment. Ricardo’s core validates the workings of the bourgeois economy and reflects the tenets of German Classical Philosophy. Marx’s theory is proletarian-oriented rather than bourgeois-tilted, but Ricardo had already foreseen revolutionary motives.

Keynes wrote about the controversy on Say’s Law, the methodology of economics, and the negative effect of Ricardo’s triumph. For Schumpeter, Ricardo incurred in the Ricardian Vice of considering that his epoch was definitive. Further logic does not necessarily produce a good economic theory. Only Keynes and Marx would break the Classical logical core – including the systematization of Ricardo – in terms of both method (organicist in both Keynes and Marx, inductive for Keynes but dialectical for Marx) and economic predictions (outburst for Marx, solvable decomposition in Keynes).

Ricardo’s early interests were in natural sciences (geology) which contrasts with philosophy for Marx and Keynes (especially in terms of ethics, epistemology and political and social philosophy). Hence it can be argued from this analysis that both Marx and Keynes broke the Ricardian core, improving and deepening economic analysis by creating progressive SRPs grounded on innovative philosophical visions mainly in terms of epistemology and political philosophy and to a lesser extent of ethical stances.
Literature


