

Criticism of the Ricardian Theory (Modern Theory Of Rent)

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B.A. Part-1

Paper-1 (Microeconomics)

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The Ricardian theory of rent has been severely criticised primarily on the basis of its unrealistic assumptions.

1. There are no Original and Indestructible Power of Soil.

It is assumed that rent is a payment for the use of the 'original and indestructible powers of the soil.' But it is difficult to decide which powers of the land are original and which are the result of human action. Leaving aside an entirely new country uninhabited ever by man, there is no land in this universe which has been kept in its natural form. Even the fertility of the land can be improved by adopting better farming methods or reduced by not using appropriate techniques of production. Thus the notion of the original and indestructible powers of the soil is vague.

2. The Best Land is not Cultivated First.

Ricardo's assumption that the best soils are cultivated first is not borne out by historical facts. **H.C. Carey, an American economist** of the late 19th century, proved through his survey of the American settlements that the order of cultivation is the reverse of what Ricardo regarded the basis of his theory: it is the inferior land that is first cultivated for it is easily manageable and does not require much efforts to clear it of vegetation. It is only when the settlers increase in power and numbers that richer lands are approached. **Carey** declared emphatically: "***We know of no exception to this rule and we feel assured that none exists.***" To him, this Ricardian fantastic for "***Ricardo had never witnessed as at the moment we do from the window at which we write, the progress of a new settlement.***"

3. Scarcity and not Fertility is the Cause of Emergence of Rent.

The Ricardian theory is based on the assumption that lands differ in fertility. None can deny this. But to say that more fertile lands earn high rents and less fertile lands earn low rents is not true. Rent arises not because of the fertility of land, but because land is scarce in relation to its demand. Since land is fixed in supply, changes in the demand for agricultural products cause changes in their prices which bring about changes in demand for land and thus cause changes in the rent. Therefore, the realistic approach to the problem of the emergence of rent is through the scarcity principle rather than the differential principle.

4. There is no no-Rent land.

For the explanation of his theory, Ricardo assumes no rent land. In reality no such land exists, though there may be a marginal land which just covers the cost of producing product. The use of the concept of no rent land is not essential for the study of the theory of rent. Even if a piece of land does not earn rent in one use, it can be put to some other use where it can earn a surplus.

5. The Law of Diminishing Returns can be Held in Abeyance.

The theory assumes the operation of the law of diminishing returns. But technological and organizational improvements have tended to offset the operation of this law not only in England but also throughout the continent of Europe. Ricardo failed to anticipate that powerful forces will play a prominent role in holding the law of diminishing returns in abeyance and increase the agricultural productivity manifold.

6. Perfect Competition is not Found.

Ricardo's theory is also based on the unrealistic assumption of full and free competition. Even in the agricultural sphere, perfect competition is not found and the rent charged by the landlords is much above the economic rent.

7. Rent also Arises in the Short-Run.

Like all classical doctrines, the theory is applicable only in the long-run. It is unrealistic, since rent also arises in the short-run when in fact the supply of factor is fixed and **Marshall** prefers to call it 'quasi-rent.'

8. Rent is not a Payment for the Use of Land Only.

According to Ricardo, rent is a payment made for the use of land only. But it is not land alone that is fixed in supply in relation to its demand. Even others factors are fixed in supply at a

period of time and thus earn a surplus which is rent. **Marshall** was right in saying that '*rent is a leading species of a large genus.*'

9. Land and Labour are not a Single Homogeneous Factor.

Throughout the Ricardian analysis capital-and-labour are viewed as a single homogeneous factor applied to land in successive doses and rent is a residual after paying the joint share of capital-and-labour. This reasoning appears to be absurd for capital and labour are two separate factors that receive separate rewards and secondly, Ricardo does not make clear the proportions in which capital-and-labour are used with land.

10. Rent is not Price-Determined.

The argument that rent is price-determined has been the subject of much criticism. Since price of corn equals the cost of production on the marginal land which is the no rent land, rent does not enter price. In reality, some payment has to be made to the owner of a land as price to introduce him to transfer his land to some other use. This payment would enter into the cost of production of the product and hence into the price. The rent which a farmer is paying to the landlord is included in the total expenses of production and obviously enters into price. From the point of view of an industry or use, only the transfer cost of a piece of land enters into price. However, from the point of view of the economy, there being no transfer cost of land the entire earnings are rent which do not enter into the cost of production and hence into the price. But we are not concerned so much with the economy as a whole as with the individual farmer or industry in discussing the relation between rent and price.

CONCLUSION:

Despite this weakness, the Ricardian theory of rent "*brings out clearly certain points which are of great importance from the standpoint of the policy.*" To Ricardo, rent was essentially an "*unearned-income,*" which accrues more and more to the owners of land as the demand for products of land continues to rise thus bringing even inferior lands under the plough. It was on the basis that **Henry George, an American writer** in his book '**Progress and Poverty**' (1879) advocated a single tax on land. This ultimately has led to the imposition of tax on land whether agricultural or urban. For it is contended that since rent does not involve any sacrifice on the part of the land owner and is a surplus above the cost of production, the taking away of the part or whole of rent will neither diminish the supply of land nor its productivity. Rather, it helps in reducing inequalities of income and wealth.

Even on the theoretical plane, the so-called modern theory of rent is merely the amplification and modification of the Ricardian theory. Instead of attributing rent to land alone, modern economists apply it to all factors; in place of the differential principle, the latter use the concept of transfer earnings and the whole analysis is worked under the assumption of perfect competition. Despite all the revolutionizing changes in science and technology, the two main tenets of Ricardian theory, that of diminishing returns in agriculture and increase in population, are more true today in the

underdeveloped countries than they were in the days of Ricardo. To conclude with **Prof. Robertson**, *the Ricardian theory of rent "has by no means lost its vitality and instructiveness."*