

David Ricardo, *The Iron Law of Wages*, 1817

David Ricardo (1772-1823) was one of the foremost economic theorists of the early nineteenth century. His ideas about free enterprise and wage control were used by the industrial capitalists of Britain who wanted to produce as much profit as possible at the least possible cost. Together with Adam Smith, whose book *The Wealth of Nations* (1776) laid the foundations of the capitalist doctrine of laissez-faire, and Thomas Malthus (1766-1834), who employed statistics in developing a theory of world population explosion, Ricardo was one of the principal economic theorists used by industrialists in reaction to calls for reform of working conditions in Britain. Ricardo's theory, which eventually became known as the 'Iron Law of Wages', maintained that the wages of labourers should be kept at the lowest possible level because their high rate of reproduction ensured a surplus supply of labour. He also advocated a restriction of the Poor Laws. These had originally been passed by the British Parliament in the early nineteenth century to bring relief to the poorer classes in British society. The industrialists of Britain were therefore able to use the Ricardian theory of wage control to refute the calls of the reformers

In the natural advance of society, the wages of labour will have a tendency to fall, as far as they are regulated by supply and demand; for the supply of labourers will continue to increase at the same rate, while the demand for them will increase at a slower rate... I say that, under these circumstances, wages would fall if they were regulated only by the supply and demand of labourers; but we must not forget that wages are also regulated by the prices of the commodities on which they are expended.

As population increases, these necessaries will be constantly rising in price, because more labour will be necessary to produce them. If, then, the money wages of labour should fall, while every commodity on which the wages of labour were expended rose, the labourer would be doubly affected, and would be soon totally deprived of subsistence... These, then, are the laws by which wages are regulated, and by which the happiness of far the greatest part of every community is governed. Like all other contracts, wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature.

The clear and direct tendency of the poor laws is in direct opposition to those obvious principles: it is not, as the legislature benevolently intended, to amend the condition of the poor, but to deteriorate the condition of both poor and rich; instead of making the poor rich, they are calculated to make the rich poor; and while the present laws are in force, it is quite in the natural order of things that the fund for the maintenance of the poor should progressively increase till it has absorbed all the net revenue of the country, or at least so much of it as the state shall leave to us, after satisfying its own never-failing demands for the public expenditure.

This pernicious tendency of these laws is no longer a mystery, since it has been fully developed by the able hand of Mr. Malthus; and every friend to the poor must ardently wish for their abolition. Unfortunately, however, they have been so long established, and the habits of the poor have been so formed upon their operation, that to eradicate them with safety from our political system requires the most cautious and skillful management. It is agreed by all who are most friendly to a repeal of these laws that, if it be desirable to prevent the most overwhelming distress to those for whose benefit they were erroneously enacted, their abolition should be effected by the most gradual steps.

It is a truth which admits not a doubt that the comforts and well-being of the poor cannot be permanently secured without some regard on their part, or some effort on the part of the legislature, to regulate the increase of their numbers, and to render less frequent among them early and improvident marriages. The operation of the system of poor laws has been directly contrary to this. They have

rendered restraint superfluous, and have invited imprudence, by offering it a portion of the wages of prudence and industry.

The nature of the evil points out the remedy. By gradually contracting the sphere of the poor laws; by impressing on the poor the value of independence, by teaching them that they must look not to systematic or casual charity, but to their own exertions for support, that prudence and forethought are neither unnecessary nor unprofitable virtues, we shall by degrees approach a sounder and more healthful state.

No scheme for the amendment of the poor laws merits the least attention which has not their abolition for its ultimate object; and he is the best friend of the poor, and to the cause of humanity, who can point out how this end can be attained with the most security, and at the same time with the least violence. It is not by raising in any manner different from the present the fund from which the poor are supported that the evil can be mitigated. It would not only be no improvement, but it would be an aggravation of the distress which we wish to see removed, if the fund were increased in amount or were levied according to some late proposals, as a general fund from the country at large... If by law every human being wanting support could be sure to obtain it, and obtain it in such a degree as to make life tolerably comfortable, theory would lead us to expect that all other taxes together would be light compared with the single one of poor rates. The principle of gravitation is not more certain than the tendency of such laws to change wealth and power into misery and weakness;... to confound all intellectual distinction; to busy the mind continually in supplying the body's wants; until at last all classes should be infected with the plague of universal poverty. Happily these laws have been in operation during a period of progressive prosperity, when the funds for the maintenance of labour have regularly increased, and when an increase of population would be naturally called for. But if our progress should become more slow; if we should attain the stationary state, from which I trust we are yet far distant, then will the pernicious nature of these laws become more manifest and alarming; and then, too, will their removal be obstructed by many additional difficulties.

This excerpt is from David Ricardo, *The Principles of Political Economy and Taxation* (London, 1911), pp. 57, 61-63.

Source: <http://www.class.uh.edu/history/cox/Doc1302IronLawofWages.htm>

surplus (n.) → cf. surplus value (n.)	Überangebot ; vgl. Mehrwert	pernicious (adj.)	schädlich
advocate (v.)	vorschlagen, raten	ardent (adj.)	eifrig, leidenschaftlich
relief (n.) → cf. poor relief (n.)	Hilfe, Unterstützung → vgl. Armenfürsorge	erroneous (adj.)	irrig, falsch
commodity (n.)	Ware, Wirtschaftsgut	render (v.) → this would render the reform unhelpful	(zu etw.) machen
deteriorate (v.)	verschlechtern	casual (adj.)	unsystematisch, beiläufig, zwanglos
revenue (n.)	Einnahmen, Einkommen	mitigate (v.)	lindern

Task: Analyse the text.