

Ricardo on Poverty: His Vision of a Market Society

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Abstract:

Ricardo's main theme was the distribution of the national product through the process of economic development, but he did not neglect the problem of poverty. He accepted Malthus's conclusions on the effects of the Poor Laws to increase poverty by stimulating population growth, and on the necessity of their repeal. In *Principles*, he expressed fear that the poor rates might absorb the whole surplus of the economy, because he thought the poor rates would fall on profits, which would depress the rate of real wages by retarding capital accumulation, causing more poverty. He wished to repeal the Poor Laws to establish 'fair and free competition' in the labour market which would improve living conditions for labourers. At the same time he recognised the need of gradual and cautious steps for their repeal, for people had formed habits of life under their influence. He showed his view on poverty in more detail in his correspondence with Huches Trower on savings banks. He saw savings banks as an important means to inculcate in the mind of the labourers prudence and spirit of independence, which he thought were essential for the repeal of the Poor Laws. For Ricardo, private charity must provide for the poverty remaining after their abolition, thus contributing to self-reliance of labourers. Transparency was important for all public activities. He did not regard combinations among labourers as interference in 'fair and free competition.' I will try to form an idea of his vision of the market society which he sought to establish, taking into consideration his proposal for parliamentary reform of extending franchise to all substantial householders including labourers, his conviction on sacredness of private property, his plan of a national bank to stabilise the value of money, in addition to his thoughts on poverty and its relief.

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I Introduction

In England, from the 16th century there existed the Poor Laws by which the society

provided relief for the poor. The poor rates and the public expenditures for poor relief increased extremely rapidly from the late 18th century to the 1810s (in 1818 the pub-

lic expenditures for poor relief were about five times as large as in 1776 in nominal terms).¹⁾ Given the rapid growth of the poor rates and expenditures for poor relief, political economists of the time were challenged to seek a solution. Although David Ricardo's primary interest was certainly in the distribution of the national product among all classes of society in the process of economic growth, he did not overlook the problem of poverty.

As he wrote very little on the problem of poverty in his published writings, little is known about Ricardo's ideas on this issue, but he discussed it in considerable detail in his correspondence with his friend Huches Trower²⁾ concerning savings banks from 1816 to 1817. That was the period during which the Rose bill for savings banks was presented and read in Parliament and passed.³⁾ From their disputation over the savings banks we can learn more about Ricardo's ideas on the Poor Laws and poverty. While he had a very negative attitude toward the Poor Laws, he was active in voluntary programmes to reduce poverty. He engaged in the establishment and management of three banks for savings for labourers. He also maintained with his own money two schools for children of the poor, and he was on the board of a society for promotion of elementary education of children of the lower classes.⁴⁾

Poynter (1969) says, 'Ricardo himself did not give more than perfunctory theoretical attention to the question of poor relief; it was not one of the major issues in his debate with Malthus.' (p. 239) It is true that poor relief was not the central problem in his controversy with Malthus, but it was a major issue discussed between Ricardo and Trower.

They had an active debate on savings banks, which were closely related with poverty and its remedies. After the first savings bank was established in Scotland, savings banks spread rapidly through Scotland and England in the 1810s. Below we will examine the discussions in the correspondence between Ricardo and Trower on savings banks.

Probably due to the scarcity of published writings by Ricardo on poverty, there are only a few studies of his ideas on poverty and poor relief. They include studies by J. R. Poynter (1969), Raymond G. Cowherd (1977), Rajani Kannepalli Kanth (1986), and John P. Henderson (1984, 1997). Almost all of those works examine only the arguments in *On the Principles of Political Economy, and Taxation*, but Ricardo expressed his ideas on poverty in more detail and more specifically in his correspondence with Trower on savings banks. Among the above few studies the only ones that examine Ricardo's participation in the establishment and management of savings banks are by Henderson (1984, 1997). However, Henderson touches on the correspondence between them on savings banks very briefly.

In what follows, we will consider Ricardo's view on poverty and its relief, and in particular, we will examine in detail the correspondence exchanged between Ricardo and Trower on savings banks. By clarifying his thinking on this issue, we will try to elucidate Ricardo's vision of the market society which he wanted to establish. Here, the term 'poverty' is used in a broad sense to include indigence and low standards of living among the labouring classes. 'Indigence' means the inability to earn the minimum necessary means of subsistence without support by any-

one.⁵⁾

II Ricardo on Poverty in *Principles*

Let us begin by examining his arguments about poverty in *On the Principles of Political Economy, and Taxation* (1817), in the chapter 5 of which his basic ideas on poverty appear. In this chapter, Ricardo first explained how wage rates are determined in the market economy, and he continued;

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.' (Ricardo I, 105, emphasis added)

But actually there was interference by the legislature, in consequence of which the competition in the labour market was not 'fair and free.' One of the most substantial forms of interference by the legislature was probably the Poor Laws. In Ricardo's view, 'The clear and direct tendency of the poor laws, is in direct opposition to these 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.' (105–06) The phrase 'these obvious principles' here means the law of determination of the wage rate as explained in the preceding part of the same chapter.

According to Malthus, the Poor Laws paradoxically would work to increase the poverty which they were intended to reduce,

by encouraging population growth and at the same time retarding the increase of food production because of their tendency to weaken preventive check and the incentive to work by removing fear of starvation from the lower classes of society. Ricardo accepted this basic conclusion of Malthus's analysis of the effects of the Poor Laws on population growth and poverty. In fact, he says, 'This pernicious tendency of these laws is no longer a mystery, since it has been fully developed by the able hand of Mr. Malthus.' (106) And the Poor Laws 'have rendered restraint superfluous, and have invited imprudence, by offering it a portion of the wages of prudence and industry.' (107)

Ricardo also contended that the Poor Laws lower the net profit rate because the poor rates fall on profits as well; and by reducing the net profit rate after paying the poor rates, the Poor Laws lower the rate of capital accumulation. That, he said, has the effect of diminishing the growth rate of labour employment, which necessarily increases poverty among the labourers by depressing the rate of real wages.

Thus, Ricardo saw the Poor Laws as operating to increase poverty by encouraging population growth and by reducing the net profit rate at the same time⁶⁾; the increase in poverty augments the burden of the poor rates, which further diminishes the net profit rate and increases poverty among labourers. The fall in the rate of net profits caused by increase of the poor rates lowers again the rate of capital accumulation, which retards the development of the economy and the growth of labour employment; the decline of the growth rate of labour employment further pushes down the rate of real wages,

causing more poverty.

In Ricardo's thought, the Poor Laws would cumulatively cause more poverty and increase the poor rates. He expressed concern that if the Poor Laws should continue to exist unchanged, the poor rates might absorb the entire net revenue (or surplus) of the society.⁷⁾ 'Whilst 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.' (106, emphasis added) In fact, however, the poor rates had not at that time 'absorbed all the net revenue of the country,' which, Ricardo observed, *owed much to the present system of poor relief administered in small local communities of parishes*. In a small society of parish, contributors to the poor rates could see how they were levied and expended for the poor. Ricardo opposed any plan that proposed to unite parishes and to make a national system of poor relief.⁸⁾

Ricardo expressed his belief that the Poor Laws should increase poverty instead of reducing it by removing prudence and spirit of industry from the labouring classes and by lowering the net profit rate. He was firmly convinced that the Poor Laws had a pernicious influence on the society. 'The principle of gravitation is not more certain than the tendency of such laws [the Poor Laws] to change wealth and power into misery and weakness; to call away the exertions of labour from every object, except that of providing mere subsistence; to confound all intellectual distinction; to busy the mind con-

tinually in supplying the body's wants; until at last all classes should be infected with the plague of universal poverty.' (108)

Hence, if the Poor Laws had injurious effects on the happiness of the labouring classes, they should be abolished. Certain of the necessity to abolish the existing Poor Laws, Ricardo says, 'Every friend to the poor must ardently wish for their abolition,' (106) and 'No scheme for the amendment of the poor laws merits the least attention, which has not their abolition for its ultimate object.' (107) But the Poor Laws had existed for centuries, and people's habits of life had been formed under these laws. For this reason, Ricardo stressed the necessity of very gradual and cautious steps for their repeal.

Unfortunately, however, they [the Poor Laws] 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 skilful 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*. (106, emphasis added)

But how could they be repealed by 'the most gradual steps'? Ricardo proposed to limit gradually the range of application of the laws to inculcate little by little prudent habits and spirit of independence in the minds of the lower classes of society.⁹⁾

The nature of the evil points out the reme-

dy. *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*. (107, emphasis added)

For Ricardo, ‘a sounder and more healthful state’ must mean the competitive market economy in which the rate of wages is determined by ‘fair and free’ bargaining processes between employers and labourers. He believed that in the long run the happiness of labouring classes could not be increased unless they acquired habits of prudence and spirit of independence and regulated the growth rate of labour force. ‘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.’ (I, 106–07, emphasis added)

In the ‘sounder and more healthful state’ without the Poor Laws, the labouring classes would get wages above the subsistence level, and, as we shall see below, could be independent from relief.¹⁰ In his correspondence as well, he reiterated the pernicious effects of the Poor Laws and the necessity of gradual limitation of their application.

III Ricardo on Savings Banks

Now we proceed to examine Ricardo’s arguments about poverty in the correspondence on savings banks. Ricardo expressed his view on poverty and the Poor Laws in more detail in his correspondence with his friend Huches Trower on savings banks. As pointed out above, almost none of the commentators on Ricardo touched upon this controversy between Ricardo and Trower on savings banks.¹¹

In early 19th century Britain, there were no institutions that accepted small deposits made by the lower classes of society. Therefore, even if they had a surplus income to save, people of the lower classes did not save but dissipated their surplus income, because their houses were not built to protect against robbery, and so they could not keep any savings at home. The savings banks were established and managed by people of higher social ranking as voluntary activities meant to better the daily life of the lower classes. Friendly societies had existed since the 18th century, but because they were institutions of mutual insurance among labourers providing for contingencies such as accidents, sickness, deaths, and so on, they could do little to improve the conditions of daily life for workers and their families.¹²

The first savings bank was established in the small parish of Ruthwell in Scotland by Henry Duncan in 1810,¹³ and savings banks spread in Scotland earlier than in England. In Scotland at that time, there were three chartered banks (Royal Bank, Bank of Scotland, British Linen Company) that accepted deposits from savings banks paying the 5 per cent interest per annum with the guarantee of

deposits. In Scotland, savings banks could run deposits they received from the labouring classes under favourable and secure conditions. In England, on the other hand, banks did not pay interests on deposits they received, and they did not accept small deposits from low-income labourers. For that reason, it was impossible in England to establish savings banks that operated as they did in Scotland. But, on 17 January 1815 a savings bank was established at Bath by John Haygarth using a different scheme of running the funds (Bath Provident Institution).¹⁴⁾ This bank received deposits from labourers and when the amount of deposits from one depositor reached a fixed amount, it invested them in national bonds under the name of the depositor. In this case, the depositors took the risk involved in investment. David Ricardo participated in the establishment and management of the Provident Institution for the Western Part of the Metropolis (Westminster Bank for Savings), which was instituted on 1 January 1816, adopting the same *modus operandi* as Bath Provident Institution.¹⁵⁾ Following the establishment of Bath Provident Institution, savings banks spread in England as well, especially after the Rose bill passed in July 1817, giving legal sanction to savings banks guaranteeing a fixed rate of interest and the return of the deposits that the Bank of England invested in national bonds. Thereafter the number of savings banks increased very rapidly all over England and Scotland.¹⁶⁾

The controversy between Ricardo and Trower on savings banks took place in January 1816, and continued until after the passing of the Rose bill in July 1817. They agreed on the usefulness of savings banks in

improving the morals and living conditions of the labouring classes and ultimately in repealing the Poor Laws, but they differed on some important points. We will focus on several issues to examine the controversy between Ricardo and Trower on saving banks, and will try to further clarify Ricardo's view on poverty.

1. Effects of Savings Banks and Repeal of the Poor Laws

As we have seen above, in *Principles* Ricardo emphasised the negative effects of the Poor Laws which tended to increase poverty. He expressed concern that the poor rates might absorb all the net revenue (surplus) of the country. For Ricardo, repeal of the Poor Laws was essential, but recognising how deep-rooted they were in the popular mind and how difficult it was for people to make a sudden change in their habits, he emphasised the necessity of very gradual and careful steps to be taken for their repeal. Ricardo also expressed these ideas in some detail in his correspondence with Trower, which was carried on during the same period when he wrote and published *Principles*. Concerning the need to proceed carefully and slowly in abolishing the Poor Laws, in the correspondence he was more specific about the steps to be taken toward the eventual repeal. For that end, he regarded savings banks as an important instrument.

In his letter to Ricardo of 19 January 1816, Trower asked Ricardo about the usefulness of savings banks. He said that in his view, savings banks, if well-managed, were a very important means to improve the material conditions and morals of the poor, and might replace charity institutions such as

friendly societies.¹⁷⁾ Ricardo agreed with Trower on the usefulness of savings banks to inculcate in the mind of the poor people prudence and forethought, and thus to contribute to prevent excessive population growth—which he regarded as a major cause of distress among the lower classes of society.

Their [of savings banks] general diffusion in all parts of the kingdom will be of great service, if the rich and well informed will continue to bestow some attention on them. *They will tend to introduce economy and forethought amongst the poor, which may in time check the propensity to a too abundant population, the great source from whence all the miseries of the poor flow in so profuse a stream.* (VII, 26, Ricardo to Trower, 9 March 1816, emphasis added)

Both of them regarded savings banks as useful in improving the morals of the poor, behind which was recognition of the harmful influences of the Poor Laws on the lower classes. Ricardo repeatedly pointed out evil effects of the Poor Laws and the need to gradually limit their application only to cases of dire necessity. For example, he said, “The ill effects of the poor laws then I suppose to be admitted and their abolition to be desirable the question then is how is it to be effected? Can it be by any other means than by gradually limiting their application, by encouraging the poor man to depend on his own exertions only? Is not this to be done *by refusing all relief in the first instance to any but those whose necessities absolutely require it—to administer it to them in the most sparing manner, and lastly to abolish the*

poor laws altogether?” (VII, 124–25, Ricardo to Trower, 27 January 1817, emphasis added)

He expressed the same worry as he did in *Principles* that all the net revenue of the country might be absorbed by the poor rates. ‘These rates are a yawning gulph in which all that is valuable will be ultimately swallowed.’ (VII, 135, Ricardo to Trower, 24 February 1817) The following passage in his letter to Trower reveals succinctly Ricardo’s view on poverty and its relief. He here specified the steps to be taken for the gradual abolition of the Poor laws, as limiting the relief to ‘the aged and infirm, under some circumstances, children’ who absolutely need relief.

I would gladly compound for such a change in the Poor Laws as should restore them to what appears to have been the original intention in framing them; namely, *the relieving only the aged and infirm and under some circumstances, children.* Any change would be an improvement which had not a tendency to increase the evil which it proposes to remedy. *The present plan creates objects of distress, and these must necessarily go on increasing in a geometrical ratio. No man in his sober senses would wish for any sudden alteration of the present plan.* The great object should be to teach the labouring classes that they must themselves provide for those casualties to which they are exposed from occasional variations in the demand for particular manufactured goods, and *which should not be the subject of legislation.* (VII, 248, Ricardo to Trower, 26 January 1818, emphasis added)

In this passage, we find an idea which had not been stated clearly; that is, the labouring classes must prepare themselves for misfortunes that may be caused by changes in the demands for manufactures into which the state should not interfere. This view probably meant that unemployment caused by trade fluctuations should be taken care of by labourers themselves, and not by the state.¹⁸⁾ What he had in mind, it seems, was the use of savings banks.

2. Depositor's Control over Fund Management

Ricardo saw savings banks as excellent institutions that contributed to improved material conditions and morals of the poor people, but he also pointed out aspects that merited attention. One was that poor people holding deposits in such institutions had to have some control over the management of their deposits; there was always a possibility that merchants speculating with little credit or property would try to set up savings banks in order to profit personally. Such institutions had, he said, a high risk of failure and could involve some kind of fraud. Ricardo also emphasised that such control must be sanctioned by the legislature.

You ask my opinion of the saving Banks. I think them excellent institutions and calculated to improve the condition and morals of the poor, provided they are properly managed. *My fear is that though they will at first be established by gentlemen of great respectability and fortune, —as they spread, they will at last be undertaken by speculative tradesmen, as a business from which to derive profit. The poor should*

have some check on the employment of the funds, or the same evils will arise as from the indefinite multiplication of country Banks. This check should be afforded by the legislature, or there will be no security against the failure of the undertakers. The poor have no means of discovering the wealth and respectability of the parties who open these Banks. (VII, 16, Ricardo to Trower, 4 February 1816, emphasis added)

Trower opposed allowing depositors of savings banks control over the management of the funds deposited. He was emphatic that management of the funds should be left in the hands of financial experts, because most depositors were not usually well-informed about banking. But he added that the directors of savings banks should be elected by the depositors.¹⁹⁾

3. The Non-exclusion Clause

The most controversial clause of the Rose bill stipulated that people with deposits up to £30 in savings banks should not be refused public relief (Poynter 1969, 293). Ricardo and Trower whose views in this case were starkly opposed, debated this clause more than any other. Here we shall call this the non-exclusion clause. While Trower regarded it as an essential condition for the success of savings banks, Ricardo argued that the clause should be omitted from the bill for the repeal of the Poor Laws.

I had a long letter from Elwin²⁰⁾ on the subject of the clause in Roses [*sic*] Bill relating to the great question of extending Parish Relief to Depositors . . . the sanc-

tioning of that measure is essential to the success of Provident Ins. No poor man in his senses will have anything to do with them, unless it be so provided. . . . I am satisfied too, that there will be but few cases requiring such relief. Those whose prudent habits lead them to lay by, from time to time, a portion of their earnings are not likely to become burdensome on the parish. But unforeseen accidents, or misfortunes, may drive a man to that necessity, and whenever so circumstanced he ought to share the assistance of his parish in common with his neighbours. Relief is not denied to a man having a cow, or a pig, or a cabbage garden. . . . I say it is *worth while* to favor the Depositor, in order to induce the poor generally to adopt those habits of prudence and economy from which we hope to derive the most important consequences. . . . If the clause is lost, farewell to Provident Institutions. (VII, 63–64, Trower to Ricardo, 20 August 1816, emphasis original)

In this letter Trower supported the non-exclusion clause. He believed that without it a poor person would lack the incentive to save. He repeated that the clause was necessary and emphasised that relief for depositors of savings banks should be sanctioned by the law.²¹⁾ Ricardo rejected that reasoning, observing that there would be no people who would save ‘with the poor house in perspective.’²²⁾ If this clause was maintained, Ricardo observed, the lower classes would not develop spirit of independence and habits of prudence, and that it would make the repeal of the Poor Laws more difficult and their repeal would take more time. He further point-

ed out that if the Poor Laws were not repealed, the rate of real wages would remain depressed. Thus, if the Poor Laws remained, the general conditions of labouring classes would not improve, and the savings of the labourers would not increase. In consequence, savings banks could not be expected to be successful.

If the poor rates are to be resorted to not only by those who have no other means of subsisting, but by those who are possessed of property, instead of limiting their [of the Poor Laws] application you would extend it; instead of repressing population you would still further encourage it, and would place at a greater distance the ultimate effect which we have in view. (VII, 125, Ricardo to Trower, 27 January 1817, emphasis added)

Ricardo and Trower agreed on the necessity of abolishing the Poor Laws, but they differed on how best to reach the ultimate aim. In Trower’s view, the non-exclusion clause of the Rose bill was necessary for savings banks to attract a sufficient number of depositors, and the success of savings banks would improve the conditions and morals of the lower classes. Better conditions and morals of the lower classes of society would help reduce the obstacles to the repeal of the Poor Laws.²³⁾ Ricardo countered that it was essential, first of all, for people to develop habits of prudence and spirit of independence in order to abolish the Poor Laws; the non-exclusion clause would discourage people to develop such characteristics. If the clause was omitted from the bill, people would have to become self-reliant, careful,

and forethoughtful. Good habits and the incentive to save would lead to better economic conditions, and it would become easier to repeal the Poor Laws, which in turn would operate to further raise the rate of real wages. Thus, Ricardo emphasised that the omission of the clause is essential for people to acquire good habits. 'You will accomplish this object most surely if you take security for the permanence of a man's good habits. Exclude the clause he will know that to preserve his treasure he must be saving and prudent; insert it he will as surely know that he may indulge in a week or month's dissipation without infringing on it. I am not so sanguine as many as to the excellent effects which are to follow from these Banks unless we at the same time raise the general rate of wages by confining the operation of the poor laws to cases of extreme necessity.' (VII, 134, Ricardo to Trower, 24 February 1817)

According to the underlying reasoning here, Ricardo appeared to believe that people develop good habits and good morals only if they are placed in a situation in which they are obliged to do so; people learn by experience. The same way of thinking is evident in his discussions on parliamentary reform. For James Mill, it was necessary to educate people before giving them the right to vote, so that they should become 'wise' enough to participate in the election of members of Parliament. Conversely, Ricardo believed that people must first be given the franchise; through the experience of elections, people could learn and become wise.²⁴⁾

4. Depositors of Savings Banks

The fourth problem discussed by Ricardo and Trower was who could become deposi-

tors in savings banks under the existing Poor Laws. Ricardo and Trower expressed the same view on this question; both of them acknowledged that under the existing Poor Laws, those who could make deposits in savings banks were single labourers only. Though the current rate of wages was estimated to be barely sufficient for a married labourer and his family, it was more than necessary for a single labourer. In Ricardo's thinking, the Poor Laws had a tendency to encourage population growth and to depress wages to the bare subsistence level of single labourers (for married labourers a parish allowance would make up for insufficient wages), but those effects had not yet become fully manifested. Therefore, he reasoned, single labourers had a surplus income which could be saved but was actually dissipated wastefully.

There are as you observe two classes of labourers, the single and the married. Notwithstanding that the tendency of the poor laws is to reduce the wages of these classes to the least possible amount on which single men can live, *yet this effect is not probably fully accomplished. If it were, neither the single man, who receives no relief from the parish, nor the married man who does, could possibly become depositors, for they would have nothing to deposit.* We must suppose then that the single men receive more than their wants require. Our object is to encourage them to accumulate what they can save from their wages, and the question is what effect the insertion or omission of this clause will have on their minds. (VII, 133-34, Ricardo to Trower, 24 February 1817, emphasis

added)

If the Poor Laws were repealed, in Ricardo's view, the rate of wages would rise and become more than necessary for the maintenance of a married labourer and his family, affording them some surplus income which could be saved. The rate of wages would rise if labourers ceased to depend on public relief after the repeal of the Poor Laws, because labourers would rely only on themselves and acquire habits of prudence with which they would regulate the growth rate of labour supply. This is evident from the following passage in a letter to Trower.

A man's wages should, and would *on a really good system*, be sufficient not only to maintain himself and family when he is in full work, but also to enable him to lay up a provision in a Savings Bank for those extraordinary calls which you mention. (VII, 248, Ricardo to Trower, 26 January 1818, emphasis added)

'A really good system' probably means a competitive system in which the state does not interfere by way of combination laws, the Poor Laws, the Corn Laws, and so on. If these forms of state interference were removed, married labourers also could get wages sufficient to maintain themselves and their families and to have some surplus income to save. As we have seen, Ricardo formulated his theory of economics on the assumption of 'fair and free' competition in which the normal level of the rate of real wages is higher than the subsistence level before the stationary state, which is the ultimate end of economic growth and when the

rate of economic growth is zero.²⁵⁾ But, he averred, actually the average level of wages was very near the subsistence level because of state interference, the Poor Laws being a case in point. The Poor Laws encouraged population growth and depressed the wage rates. He developed his theory at the high level of abstraction in which he assumed that there are no obstacles to hinder the 'fair and free' competition.

5. Fixed Rate of Interest and Guaranteed Deposits

The fifth problem discussed between Ricardo and Trower was the guarantee of a fixed rate of interest and the return of deposits as stipulated in the Rose bill. Trower basically supported this clause, because he thought that a guarantee of deposits would enhance the appeal of savings banks to the lower classes. But it would be difficult for savings banks to afford such a guarantee. Trower believed, therefore, that the guarantee should be given by the state.²⁶⁾ Ricardo indicated a serious concern about the possible consequences of a fixed rate of interest and guarantee of the return of deposits. In Ricardo's view, if the amount of savings entrusted to the Commission of the Sinking Fund at the Bank of England was not great, it would be desirable to guarantee deposits, and he agreed with the idea of limiting the maximum amount of deposits for each depositor to £50 if it was necessary to keep the total amount of savings from becoming too great.

According to Ricardo, if the fixed rate of interest guaranteed exceeds the market rate of interest and the amount of deposits should become large, the state must pay a large sum for the difference between those interest

rates. Furthermore, a guarantee of deposits can be a cause of a more serious problem; that is, if the deposits are withdrawn when the market price of national bonds is lower than when the deposits were turned into national bonds, the state is obliged to support an enormous financial burden, because the state must pay the difference in the prices multiplied by the amount of the deposits. This would create great difficulties for financial operations in cases of national emergencies like wars. Ricardo concluded that a fixed rate of interest and the guarantee of the return of deposits would be an excessive assistance for savings banks. To Ricardo the most important thing was that savings banks should continue as going concerns providing security for deposits from members of the lower classes of society, thus motivating them to prudence and independence.

It will be worthwhile to quote a somewhat long passage from Ricardo's letter to Trower of 9 May 1817, with which their arguments about savings banks seems to have effectively ended. The passage gives a vivid picture of Ricardo as a political economist who looks at problems from the view point of the whole economy, even though he wished for the development of savings banks for the labouring classes.

It appears to me so desirable that the depositor should be secured in the receipt of the precise sum of money which he may originally deposit that notwithstanding there are great objections against the limiting each man's deposit to £50, it should be agreed to, if on no other condition this advantage is to be obtained. . . . I am very much surprised at Ministers sanctioning

such a clause, for it cannot be doubted that if the amount of deposits should become very large, it will not only subject the country to a considerable tax, but may on the breaking out of a war very much embarrass the financial operations. Suppose that a sum as large as 3 millions of debentures should be issued by the Bank in return for deposits made by trustees, when 3 pc. ts are at 85, Government would by purchasing 3 pc. ts obtain only 3 1/2 pc. on 3 millions for which they would be paying to the holders of debentures more than 4 1/2 pc., thus losing £30,000 pr. ann., and when 3 pc. ts fell to 60, they would be called upon for the payment of this sum of 3 millions at a very inconvenient time, as to obtain it they would lose the difference between 85 at which they bought and 60 at which they would be forced to sell, or £750,000. Now though I am a friend to these Institutions I do not think that they are deserving of these extraordinary bonuses, particularly as I am persuaded that this loss to the public would not act as any great encouragement to savings. The depositors whether they received 5, 4 or 3 pc. for their money would be of little importance in determining them to economical habits. (VII, 154, Ricardo to Trower, 9 May 1817)

Ricardo was much surprised that the Rose bill passed guaranteeing a fixed rate of interest and the return of deposits without limiting the amount of deposits for each depositor. He was particularly concerned that the state might become financially overburdened by growing amount of savings deposited if the market price of the public bonds

should fall lower than the price at which the Bank of England accepted deposits from savings banks and turned them into national bonds entrusted to the Commission of the Sinking Fund. Further, the fixed rate of interest guaranteed by the bill was higher than the market rate. The rate of interest fixed by the bill was £4.11s. 3d per £100, while the market rate of interest was £3.15s. per £100. And under the fixed rate of interest, if the market price of national bonds fell, the effective rate of interest on savings would become even higher.

The Rose bill passed in Parliament and was enacted as law in July 1817. The non-exclusion clause was omitted, but the Act included the guarantee of the fixed rate of interest and the return of deposits. Once the bill was passed, many savings banks were established.²⁷⁾ The state actually faced the situations Ricardo worried about. In 1828, Joseph Hume²⁸⁾ reported to then Chancellor of the Exchequer Henry Goulburn that the amount of the extra interests the state had to pay was from £40,000 to £50,000, but this was, in fact, considerable underestimation. The total amount of the extra-interests paid by the state from 1818 to 1828 was £744,363, the annual average being £67,000. The fixed rate of interest on deposits of savings banks was lowered and a limit was set to the maximum amount of the deposits for each depositor.²⁹⁾

IV Some Differences between Ricardo and Malthus on Poverty

Ricardo accepted the basic conclusion of the analysis by Malthus on the effects of the Poor Laws. Malthus concluded that the Poor Laws increased poverty by encouraging the

growth of population and at the same time they weakened labourers' incentive to work, thus not increasing or diminishing the food production. The result was more poverty, not less. Both Malthus and Ricardo insisted on the necessity of repealing the Poor Laws and maintained that after their abolition, remaining poverty should be taken care of by private charity. Both stressed the importance of inculcating habits of prudence, industry and independence in the mind of poor people, for which they agreed on the good effects of education for the lower classes. Both recognised the necessity of security of property, equal laws, and participation in politics of the lower classes to engender self-respect, independence in the mind of labourers. However, there were important differences between their views on the Poor Laws and poverty. We will try to further clarify Ricardo's view on poverty by pointing out some of those differences.

Ricardo and Malthus differed in their views on the effects of the combinations among the labourers on their standard of living. Malthus had a concept of a fund for maintenance of labourers fixed at a given time in society, one consequence of which was that combinations among labourers could not raise their average living standard as a whole. In Ricardo's view, combinations among labourers would raise the rate of wages and improve their living conditions.

A combination among the workmen would increase the amount of money to be divided amongst the labouring class. These you will observe are slight objections and I make them that I may preserve my consistency. They would not be understood by the

mass of readers but you who are acquainted with my *peculiar* views, if you please, they need be no explanation. (VII, 203, Ricardo to Malthus, 21 October 1817, emphasis original)

In the above passage, 'these' indicates the points on which Ricardo differed from Malthus including his view on the effect of the combinations among labourers.

In the Ricardo's theory, if the rate of wages rises, the rate of profits falls. If labourers restrict the supply of labour in some way or other and the demand for labour remains constant, the rate of money wages rises without raising the prices of the necessaries (if the rise of the money wage rate is general, its effect is felt by all the sectors of economy including the money sector, so that the prices in terms of money cannot rise) and the profit rate falls.³⁰⁾ Therefore, combinations among labourers will contribute to the rise of the real wage rate. But the combination laws existed at the time which prohibited combinations among labourers. Ricardo regarded the combination laws as oppressive and unjust to the labourers while conferring no benefits for employers. He wrote to McCulloch in reply to his question as follows.

I have never particularly turned my attention to the combination laws. From the little I do know of them they appear to me to be *unjust and oppressive* to the working classes, and of real little use to masters. In spite of these laws masters are frequently intimidated, and are obliged to comply with the unjust demands of their workmen. *The true remedy for combinations is perfect liberty on both sides, and adequate*

protection against violence and outrage. Wages should be the result of a free compact, and the contracting parties should look to the law to protect them from force being employed on either side; competition would not, I think, fail to do all the rest. (VIII, 316, Ricardo to McCulloch, 4 December 1820, emphasis added)

For Ricardo, it was most important to establish fairness and liberty in the bargaining processes between labourers and employers, for which combination laws were of no use. It was violence and force that should be prohibited, not the combinations among the labourers, and the fairness and liberty must be provided for by the legislature. It should be emphasised that Ricardo did not regard combinations among labourers as interference in 'fair and free' competition.

Malthus saw public works as useful in providing a temporary remedy for poverty under general gluts, but Ricardo denied their beneficial effects, claiming that the same amount as expenditures for public works must be diminished elsewhere (the so called 'Treasury View'). Ricardo clearly stated his opposition to public works in his correspondence with Malthus.

I want to hear your opinion of the measures lately adopted for the relief of the poor. I am not one of those who think that the raising of funds for the purpose of employing the poor is a very efficacious mode of relief, as *it diverts those funds from other employments which would be equally if not more productive to the community.* That part of the capital which employs the poor on the roads for example

cannot fail to employ men somewhere and I believe every interference is prejudicial. (VII, 116, Ricardo to Malthus, 3 January 1817, emphasis added)

In the above passage, by 'the measures lately adopted for the relief of the poor' Ricardo meant the public works carried on at that time in various parts of the country in which the poor people were employed.³¹⁾ Ricardo also showed the same negative attitude toward public works as a remedy for poverty in his parliamentary speech (V, 32).

Malthus accepted the 'Treasury View,' on the assumption of which his theory of general gluts was developed. He proposed public works as a temporary remedy for unemployment; in his theory, public works raise the proportion of unproductive labourers to productive labourers as defined by Adam Smith, which stimulates the effective or effectual demand in Malthus's sense and increases the labour employment, because this increase of effective demand raises the profit rate and augments investment and production.³²⁾ Ricardo did not incorporate unproductive labourers into his basic theory, and he did not admit efficacy of public works in reducing unemployment of labourers as a whole.

Malthus proposed protection of agriculture to maintain a substantial domestic agriculture from his conviction that a balanced development of agriculture and manufactures would best promote the happiness of the labouring classes.³³⁾ In contrast, Ricardo opposed the Corn Laws and urged to repeal them. In Ricardo's thinking, if a country imports corn at lower prices from foreign countries, both the profit rate and the rate of real wages rise in the importing country. And the

investment will increase, augmenting the demand for labour. Hence, free trade in corn improves the conditions of labouring classes.³⁴⁾ This difference reflects the different paths they saw as the best courses of development of the domestic economy. While Malthus recommended a balanced course of development of the domestic economy, Ricardo pursued an international division of labour.

V Conclusion

We have examined above Ricardo's view on poverty and its relief. In *Principles*, Ricardo laid out his basic ideas on the influence of the Poor Laws. As we have seen, the Poor Laws had the tendency to cumulatively increase poverty and the poor rates, on the one hand by encouraging population growth which depressed the wages and on the other hand by lowering the net profit rate which reduced the rate of capital accumulation and that of labour employment increase. Hence Ricardo's serious concern that the poor rates might absorb the society's entire surplus and his conviction that it was necessary to repeal the Poor Laws and abolish public poor relief. To abolish the Poor Laws meant removing an obstacle to 'fair and free competition.' He stressed, however, that the process must be gradual and done cautiously, since the Poor Laws had existed for a very long time and deeply-rooted in the mind of people. Ricardo wished to establish a 'sounder and more healthful state' of economy without state interference in such forms as the Poor Laws, the Corn Laws, the combination laws, and so on.

In the correspondence with Trower on savings banks, Ricardo made more explicit

his views on poverty and poor relief, and on the actual conditions of the labours. Ricardo considered the savings banks as a very useful means to inculcate in the mind of the lower classes prudence and spirit of independence, which he believed would ultimately lead to the abolition of the Poor Laws. He also made clear the gradual steps to be taken for their abolition: first, limit relief to those for whom it was absolutely necessary—‘only the aged and infirm and under some circumstances, children,’ and then gradually reduce application of the Poor Laws further. Under the existing laws, those who could make deposits in savings banks were single labourers who had a surplus income, while married labourers had no more than the bare subsistence wages for themselves and their families. Ricardo thought, however, that gradually limiting application of the Poor Laws, the rate of real wages would rise and that married labourers also would become able to get a higher real wage rate with surplus income to save from. He warned that the management of the deposits of the savings banks should be checked by the depositors, for there might appear speculators attempting to open savings banks for making their own profits from. Ricardo opposed the non-exclusion clause of the Rose bill for savings banks, because it would extend application of the Poor Laws to the depositors of savings banks, which would prevent the lower classes from getting habits of prudence and spirit of independence. The Rose bill guaranteed a fixed rate of interest and the return of the deposits to the depositors of savings banks. Ricardo was firmly opposed to this guarantee because he thought that it might impose excessive financial burdens on the state,

which could make impossible financial operations in national emergencies like wars. Ricardo regarded the security of deposits as the most important condition. So he proposed to set the maximum amount of deposits for each depositor (for example to £50) to guarantee the return of deposits. For Ricardo, savings banks were important means to help the lower classes to become independent of public relief and to proceed to the ultimate repeal of the Poor Laws.

The poverty which might remain after the repeal of the Poor Laws should be taken care of by private charity. Ricardo sought to use private charity for the ‘formation’ of independent labourers. He was not explicit about his view on able-bodied (that is, able to work) labourers that refused to work, but he seems to have regarded them not meriting any relief. It should be emphasised that Ricardo did not regard combinations among labourers as incompatible with ‘fair and free’ competition in the labour market. He rejected public works as a remedy for poverty because he judged that they did not augment labour employment as a whole. He regarded the role of government as setting in order legal conditions for ‘fair and free competition’ and charity activities. He considered it important to ensure transparency of administration in public activities, namely, those of governments and charities (as we have seen above in his arguments about the poor rates and savings banks).

If we take into consideration the following ideas of Ricardo in addition, we can form an idea of a vision of the market society which Ricardo was aiming to establish. He wanted to reform Parliament into an institution which reflected the interests of all social

classes. To that end, Ricardo recommended franchising all substantial independent householders, including labourers, while Malthus did not support universal franchise.³⁵⁾ Ricardo proposed to establish a national bank with the role of stabilising the value of money, which was regarded as an essential condition for economic activities of people. For Ricardo, private property was a fundamental precondition of a market society. Relief of poverty in the market society which Ricardo envisaged should be left in the hands of private charity aiming at independence of labourers, which was also the aim of the New Poor Law of 1834.

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Notes

- 1) While the expenditures for poor relief in 1776 were about £1,500,000, the expenditures in 1818 were about £8,000,000. (Poynter 1969, 19, 281).
- 2) Huches Trower (1777–1833). He was a stockbroker. He participated in the Bullion Controversy and carried on an intense debate with Ricardo in the correspondence about savings banks. Ricardo VI, pp. xxiii–xxiv.
- 3) George Rose (1774–1818). He was a MP. He supported property tax, and contributed in establishing the legal foundations of savings banks and friendly societies. (DNB: Oxford Dictionary of National Biography) On the savings banks, he wrote a pamphlet.
- 4) See Binns 1908, 73. Ricardo was a member of the board of the Lancasterian Society for promotion of the Lancaster's method of elementary education. In *Ricardo Papers* there is an interesting letter from Lancaster to Ricardo asking donation of money in the name of a third person.
- 5) According to Bentham's definition, poverty is the general state of labourers in which one must labour to live, and indigence means inability to earn the minimum necessary means to subsist (Bentham 2001, 3). I use the term poverty in a somewhat narrower sense.
- 6) It may be argued that any population increase encouraged by the Poor Laws would raise the profit rate by lowering the wage rate, but in Ricardo's view, the wage rate was already near the subsistence level; therefore, the effect of raising the profit rate by reducing the wage rate was deemed small.
- 7) This was not just a concern of Ricardo; it was shared rather widely at the time.
- 8) Ricardo I, *Principles*, 107–08.
- 9) We have here clear evidence that contradicts the so-called 'Ricardian vice.' Schumpeter criticised Ricardo as having applied to the practical problems the conclusions derived from a highly abstract theory without taking into account complexities and frictions of the real world, and called it 'Ricardian vice.' Cf. Schumpeter 1954, 472–73.
- 10) On the level of the wage rate before the stationary state in an economy without state interferences such as the Poor Laws, the Corn Laws, and so on, see Watarai 1983.
- 11) An exception is Watarai (2000), which examines in detail their correspondence on savings banks.
- 12) Friendly societies spread in the latter half of the 18th century, because they were not prohibited by the combination laws. On the friendly societies, see Gosden 1993.
- 13) Duncan 1815. Henry Duncan (1774–1846). He was a clergyman of the Church of Scotland. He contributed to the establishment and spread of savings banks. (DNB)
- 14) Haygarth 1816. John Haygarth (1740–1827). He was educated at St. John's College, Cambridge, and became a physician. He was a fellow of the Royal Societies of Lon-

- don and Edinburgh. (DNB)
- 15) See Hume 1816. Ricardo also helped to establish two other savings banks. See Henderson 1984, 69.
 - 16) While the number of savings banks was 57 in 1817, 119 savings banks appeared in 1818. Cf. Horne 1947, 80–81.
 - 17) VII, 12 (Trower to Ricardo, 19 January 1816).
 - 18) In the third edition of *Principles* (1821), Ricardo recognised the possibility of unemployment caused by the introduction of machinery. But he seems not to have changed his view on the poor relief. (IX, 59, Ricardo to Mill, 9 September 1821).
 - 19) VII, 33 (Trower to Ricardo, 24 May 1816).
 - 20) Elwin was a member of the management board of Bath Provident Institution. See Haygarth 1816.
 - 21) VII, 96–97 (Trower to Ricardo, 19 November 1816).
 - 22) VII, 126 (Ricardo to Trower, 27 January 1817). Ricardo seemed to think like Adam Smith that people would save in order to improve their living conditions, not from fear that they might be obliged to depend on poor relief.
 - 23) VII, 128–29 (Trower to Ricardo, 9 February 1817).
 - 24) Cf. Milgate and Stimson 1991.
 - 25) This is the so-called ‘New View’ of Ricardo’s theory. For the ‘New View,’ see Casarosa 1978. Watarai 1983 formulated a theoretical model of Ricardo’s economics incorporating the rate of real wages above subsistence level and the money sector producing money (=gold) under constant returns to scale (money is given the role of the invariable measure of value). In this model, capitalists play the dominant role for the functioning of the economy. The formulation of the ‘New View’ did not incorporate such a vision of the capitalist economy.
 - 26) VII, 152 (Trower to Ricardo, 7 May 1817).
 - 27) The number of savings banks rapidly increased reaching 465 at the end of 1818. Horne 1947, 80–81.
 - 28) Joseph Hume (1777–1855). He was an assistant surgeon of the marines of the East India Company. Later he became a MP. He engaged especially in the monetary and financial problems. (DNB)
 - 29) Horne 1947, 100–04. See also Henderson 1984, 72–73.
 - 30) On Ricardo’s assumption of the money (gold) produced in the domestic economy under constant returns to scale, see the note 25 above. He assumed the money as invariable measure of value in order to remove price variations caused by changes in the value of money (general changes of prices including money wage rates) and to show pure effects of changes in the corn price caused by diminishing returns in agriculture. On this point, see Watarai 1983.
 - 31) Ricardo VII, p. 116, Sraffa’s note.
 - 32) About Malthus’s theory of general gluts, see Watarai 1988. Malthus defines the effective or effectual demand as intensity of demands measured by prices divided by the money wage rate (that is, labour commanded).
 - 33) Malthus presented this idea of balanced economy in the fifth edition of his *An Essay on the Principle of Population* (1817). For example, see Watarai 1997 and Hatori 1998.
 - 34) Ricardo, *Essay on Profits* (1815), in Ricardo IV. Ricardo maintains that the capitalists and labourers would benefit from importing cheap corn. This view obviously contradicts the subsistence theory of wages.
 - 35) For Ricardo’s view on this point, see Milgate and Stimson (1991), for Malthus’s view, see *Essay on Population*, 3rd ed.

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