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## Avinash Kumar



*Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship. He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi. Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi. He has qualified UGC – NET examination and has been awarded ICSSR – Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.*

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# **ON THE PRINCIPLES OF POLITICAL ECONOMY AND TAXATION**

AUTHORERD BY - SNEHA SINGH

Advocate, Delhi High Court

## **Chapter Analysis:**

**Book Name:** On The Principles of Political Economy and Taxation

**Chapter:** 32 Mr. Malthu's Opinion on Rent

**Author:** David Ricardo 1817 (third edition 1821)

## **CHAPTER ANALYSIS**

### **CHAPTER: 32**

#### **MR. MALTHUS'S OPINION RENT**

In this chapter author is analysing the views and opinions of Mr. Malthus on rent. Ricardian rent theory talks about the land value and productivity. According to Ricardo, perfect market theory cannot explain the price of rent and land being one of the most dominant element of economy derives its value from somewhere. According to the author, Mr. Malthus has explained the principle of rent, and how it rises and falls in relation to advantages, discusses about land fertility and its production, and correlation which exists between all of them. But in this chapter, author has tried to observe the theories which is wrong or has some error in it. For example, Mr. Malthus has said that rent is the one of the new additions to wealth. Mr. Buchanan has said that no new income is generated from rent. It is just a transfer of revenue from one person to another. There is no profit or gains. If there is increase or decrease in price, it still remains in the hands of owner through the process of taxation.

Mr. Malthus observed difference between the manufactured commodities and labour, Mr. Malthus questions M. de Sismondi, whether rent depends on the efforts of labour, which is nominal in nature. Mr. Buchanan is asking whether rent is adding to national wealth or is it just a transfer of value, and it is beneficial to the landlords and injurious to the consumers.

According to the author, rent is regarded as adding value not wealth. For example: There is

increase in price of corn from 4 pounds to 5 pounds per quarter, due to some changes. Millions of quarter will be of value 5,00000 pound instead of 4,00000 pound. In this process including corn, other commodities will also be expensive. Thus, one possession will have greater value than the other, in society altogether. This is an example of creation of value. But this value is nominal and it does not affect wealth. There is same quantity of corn, but the difference is change in price, transfer of value from possessors to the land. Rent does nothing to the resources of a country. If land would have been of better quality, it could employ the same capital without generating rent.

According to the author, Mr. Sismondi and Mr. Buchanan both of their opinions about rent were correct. They were of the opinion that rent has only nominal value and it does not increase national wealth. It is transfer of value from one person to another but it benefits landlord and considered to be injurious to the consumer.

Mr. Malthus observes for the cause of rent which is due to increase in the cost of production of the final commodity. He also gave reasons for the high price of

- quality of land: it increases the fertility and growth of produces other than the person required for the person employed on the land.
- providing the means for the growth of particular product according to their demands and needs, or increase in no. of buyers in proportion to the material produced.
- scarcity of most fertile land.

Here, Mr. Malthus is denoting about high price of corn above the cost of its production. He also mentions that cost of production is higher than in normal condition. It also includes profits as well as wages. He talks about price for which the whole produce will sell. For example: 150 quarters of corn is available at 3 pounds per quarter, is higher than 100 quarters of corn which is 4 pound per quarter. Cost of production is same both cases. When you sell in group, the whole produce is taken into consideration. So high price would not be considered as cause of rent. Thus, cost of production at which the produce is sold in the market, the excess price is rent. Mr. Malthus defined rent as,

- value of the whole produce - the total produce = the left over that remains with the owner of the land

After all the calculations including outgoing (expenditure belonging to its cultivation) whatever has been paid, including profit and loss. He regarded rent as value in excess of real production. Rent is therefore represented a kind of negative money that landlords could pull out of the

production of land, by means of its scarcity.

So, Mr. Malthus gave certain observations was made by him, consumption, supply and price exceeds the cost of production. The question was why consumption and supply makes the increase of price of production than the cost of production, and he gave reason that it is due to the fertility of the land that increases the rate of production. If you deteriorate land condition or fertility of land eventually decreases and if you keep on decreasing it. Thus, increasing production or overuse will reuse in decline in soil fertility, but this was not the question. The question was whether the rent will decrease if the excess of their price above the cost of production will diminish or disappear, rent will also decrease. Mr. Malthus wanted to infer, excess of quantity will diminish and disappear because of high price of products, will be in abundance rather than in scarce. High price will be different for natural monopolies.

Another question that arises on Mr. Malthus theory of rent was that, is there any chance that if fertility is reduced which will result in less production, but it would not hamper the rent of the land? If this is true, Mr. Malthus proposition is too universal, it will be true under all the circumstances. Rent will depend on fertility of land, it will rise if fertility increases and decrease if fertility decreases.

Mr. Malthus theory can be right that with increase in production their rent will also increase. But the facts here are contradictory, if the most fertile lands are in cultivation, the landlords receives lowest rent, but if the land is of poor quality landlords receive highest rents.

For example: If there is demand for 10 million quarter of corn, but the land fertility decreases so it is producing only 6 million quarter of corn. Rent is in proportion to relative fertility not absolute fertility in cultivation. Rent of superior land will increase, so inferior land will be opted for production which will increase rent of inferior land. Capital will be used for inferior land.

Mr. Malthus as stated in his third point about the comparative scarcity of fertile lands. Price of corn increases that arises difficulty in production of the leftovers on the fertile land, as land loses its fertility. It will increase the value of the produce that had earlier been produced on the fertile land. thus quantity will decrease but the cost of production will not increase on most fertile land because wages and profits will always be of the same value. Thus, it can be said

that rent must rise if land loses its fertility unless and until there is reduction in capital population and demand also.

According to other authors Mr. Malthus proposition is wrong, increase in fertility of land causes increased amount of rent. But there is difference in sustaining a high rent or actually being able to pay it. For example, rent in some countries with very fertile land might be lower than in a country where there is a moderate return. Thus, rent depends on relative fertility.

Here, Mr. Malthus has tried to differentiate between different products that is being yield. He thinks that natural monopolies product is different from regular products. Scarcity of natural and necessary monopolies product causes high rent, but in case of corn, its abundance causes high rent. This distinction is not accepted by the author, as if you grow scarce wine there will be rise in rent than the corn by increasing rent. Nature of land is not important, high rent will depend on the price of produce. Thus rent is proportional to abundance not the scarcity. What is demanded should be produced, there are times when large number of commodity is produced. In that situation the price will fall and will not pay the cost of production including the profits. Market price of that product will rise to the natural price.

According to Mr. Malthus, population is increased by the food that creates its own demand. Increase in wages of labourers will make their living condition better. This will higher their standard of living, and all the profits earned will be used in expenditure. As no. of labourers are not going to increase soon, their wages will remain same, i.e. permanently high. Demand of food is due to increase in capital and population, not because of high wages of labourers. The abovementioned conception is wrong, because if there is increase in no. of labourers eventually their wages will decrease.

What will farmer do if they have to produced more corn than demanded, and the price is reduced to lowest? Mr. Malthus says that if the products cannot create demand proportional to their increased quantity, thus the price of products will eventually fall. However at the end it might reduce the price of raw produce like price of manufactures to the cost of production. Mr. Malthus and other authors, has always overlooked the fact and never explained corn doctrine in different perspective where the price of corn depends on the actual produce. It has always been shown that corn is sold at a monopoly price.

Every country is using better machinery for production of corn, but there is some places where poor machinery is used on fertile land, turning it less fertile. If the price of raw produce is increasing, the price of machinery will increase and if it decreases, it will diminish.

To sum up, if the produces does not have the property of creating and increasing demand proportional to their quantity, it would reduce the price of raw produce to the cost of production. If the corn price is at its not high, it would not be in high quantity than the actual population needs for its consumption. Then its cheapness would never attract population. But labourers can easily serve their families. For example: In America there is rapid population growth because food is produced at cheap rate, and not because there is abundant supply. Food is produced at cheap rate because of population growth, whereas in Europe population growth is low, so value of food is high. On daily basis demand for commodities is less than their supply. That means if corn is not able to raise it demands, it will decrease price of its produces.

Mr. Malthus has given suitable exposition of the cause of the rise in the price of raw produce in rich and progressive countries. Author agrees to some of them and disagree to the others. There is irregularity in the currency of the country and other incidental matters which causes difference in market and real price of corn. Corn in a progressive country is sold at a price which is necessary to give the actual supply, as this supply increases and becomes more difficult, the price rises in proportion. Mr. Malthus has said that the real price of commodity will depend upon the labour and capital present. Fall of wages cannot raise rent. In proportion if less land is used for wages more will be used for profits and vice versa. This settlement will be done by labourers and the farmers, no interference of others.

- If wages fall, profits will rise and not rent.
- If wages rise, profits would fall and not rent.

The rise of rent and wages, and the fall of profits, are inevitable effects of the same cause, increase in demand for food, the increased quantity of labour required to produce it, and its consequently high price. In this work, I have shown that a fall of wages would have no effect other than to raise profits. Rise of profits will accumulate capital, and which will further increase population and therefore legitimately result in increase of rent.

According to Mr. Malthus another cause of increasing rent is agricultural improvements and additions, which will lessen the number of labourers, to produce a given effect. Author does not agree to this passage of Mr. Malthus, he says that is similar to the point increased fertility

of land results in increase in rent. The quantity of food that could be consumed under this circumstances can be produced either with less labour or with less quantity of land, this price of labour would fall and capital would be withdrawn from the land. Nothing can raise rent except the demand for new land (relative fertility alteration). So improvements in agriculture and division of the labour are the two factors that are common to all land, they improve the quantity of raw produce obtained, but it does not make changes in relative proportions.

Mr. Malthus considered Adam Smith argument about corn as an error. Adam Smith considered corn as a measure of value. Smith understood value as related to labour. Mr. Malthus commented on this, that considered corn as different in nature. According to him the corn prices are more stable than the prices of metals like gold and silver. According to Adam Smith labour is the real measure of exchangeable value. But value is not commonly estimated by labour as it is difficult to measure and commodities are more frequently exchanged for other which is used in estimating value. Mr. Malthus, he is not denying the power of corn upon the price of influence of labour. This influence is not preventing the movement of land and labour in the market, and taking consequence from what Adam Smith proposition will lead.

Mr. Malthus shows that demand and high price proportional to production of raw produce. Author here tries to show that according Mr. Malthus term price has been used in difference sense which has been mentioned in books like observations on the corn law & ground of an opinion.

Mr. Malthus has always measured the value of corn by means of labour and capital which has been used to produce. He has also said that if there is increase in quantity of labour and capital, then there will be increase in production of corn and this eventually will result in rise of corn's price. This proposition was criticised by the author, according to the author production price of the corn is not an important factor on the influence on the quantity produced, but it is the price at which corn is sold in the market is important. So we look at the price of corn to measure value in a way that, whether it is above the price of production or below the price of production, that capital will be added or deducted from the land. If the price of corn is greater than the price of production the capital will go to the land and, if the price of production is less than the price of production it will be deducted from it. Production of corn depends on the market price of the corn not the real price. Rise in market price makes the cultivation of land, the more profitable use of capital.

According to the author Mr. Malthus has made correct observations on the Adam Smith's standard of value. Adam Smith considered labour as standard unit of value and corn as the measure of labour. Corn is considered to be inconvenient measure. This is considered to be the most challenged proposition of the political economy. It also opposes definition of value in exchange. Neither corn nor labour are accurate measures of value in exchange, and non other commodity is. When we talk about real value, Mr. Malthus as stated in Essay on rent, that real value in exchange is measured by the proportionate amount of capital and labour needed to produce the product/corn. In "Inquiry into the nature of rent" real value in exchange does not change despite of the factors like irregularities in the currency of a country and other circumstances. According to the author, this by all means will be applicable on all the commodities. A commodity will rise in price only if greater quantity of capital and labour will be used to produce it or because money has fallen in value, and vice versa.

If there is free importation of corn or improvements in agriculture, raw produce would fall but would not affect the price of the other commodity, only the raw produce real value which used as composition or cost of production would get affected. In this condition change in value of money is common to all commodities. But in the previous scenario discussed above, difference is arising due to labour and capital.

According to Mr. Malthus, money value of all the commodities in the country must fall in proportion to the fall in price of corn. For example if total no corn consumed is value of ten millions per annum and the other commodities including foreign commodities is of the value of 20 millions per annum, the total consumption is 30 millions per annum, it cannot be implied that annual expenditure is reduced to 15 million as price of corn has fallen to 50%.

The value of raw produce might have exceeded only to 20 percent of their whole value, therefore if we count the fall in value of end product instead of being from 20 to 10 millions, it would be 20 to 18 millions. After the fall in price of corn, the whole expenditure will not be 30 to 15 million but will be 30 to 23 million. If the price is cheap, no more corn will be consumed, but those who has employed capital and labour for the production of corn, will use that to produce raw materials. Only those part will be used in exchange for foreign corn. But it would be of no benefit. There will be real decrease in money value of all the commodities in the country, including corn. The rent would also decrease eventually, landlords would also be affected. But the quantity of enjoyment will increase.

Thus, Mr. Malthus instead of considering fall in value of raw produce, considers the same thing as rise of 100 percent in the value of money and argues as if all commodities would sink to half their former price.

Here Mr. Malthus says that if the price of corn is increasing every 5 to 10 years, in this phase government borrowed near five hundred millions of capital. But if price of corn is falling, so will other commodities price fall. Thus government has to be numerous interest. So this interest will be paid by only those class of people whose nominal income will vary with the variation of measure in value. The nominal revenue of this part of society will fall to the half. So here Mr. Malthus contends that if value of corn falls, gross income value of whole country will fall. But according to the author this is not the case. If gross income value is reduced than there will be increase in the net income value. Secondly, any increase in value will not only be bearable by landlords and industrious class of population.

Argument given by Mr. Malthus was very vague that if there is fall in gross income of country there will be decrease in net income, in proportion to its decrease. According to the author main object is to show that if there is fall in the value of necessaries, wages of labour would fall, thus profits of stock would rise. Larger funds will be paid to one who is employing the labour class than the labourers. For example if the value produced is 1000 pounds, it is to be divided between labourers and the employer as 800 pounds and 200 pounds respectively. If it decreases to 900 pounds, there would not be any effect on the employers value.

It is important to distinguish between gross revenue and net revenue. Supposedly all the commodities of the markets are brought at the rate of 20 million. In this process there will be need of labours and other necessaries, this will require an expenditure of 10 million. Thus in this case gross revenue will be 20 million and net revenue 10 million. All the taxes and everything is paid from net revenue. But it does not follow the rule that labourers will get 10 millions. They might get more or less according to their net income.

But it is said by the Mr. author that if this is the pattern there would be no loss and gain in the society. For example money becomes more valuable then eventually price of commodities and labour will fall. This will affect the net income. But suppose after the rise of money, there is raise in taxes, the society would be poorer. To alter the money value of commodities, by altering the value of money and to raise the same amount of money by means of taxes, will

increase the pressure on the society.

But for example if the net revenue is 10 million, landlords receive 5 millions on rent, and 1 million deducted for labour cost, the net revenue will be same. Gross income 9 million, if two millions is raised by taxes on the gross income, what would be the condition, whether the country would be poorer or rich. They would be rich as after paying tax they will be left with 8 millions to buy necessities and other commodities. If landlords are losing money, then the capitalist will be the one benefiting from this. All the products will be available to them at reduced price. All the commodities where raw produce is playing an important role will cost him less. This will increase their money income, so that he can enjoy additional necessities by paying taxes. This will make up for the diminished demands of the landlords. The same observation apply to farmers and traders of every description.

But it may be said that the capitalist income will not be increased, the millions deducted from the rent of landlords will be paid to the labourers. It will not affect the net income of the society. It will affect only different and needy class of the people. The stockholders will be greatly benefitted by the fall in the value of the corn, if none is at stake, this will also help in national gain, arising from cheap corn. Stock holders have always been benefitted by the value of corn from centuries. They always get high dividends on the price of corn, as they have been continuously increasing.

But there is drawback to the stockholders as their money dividends will always be constant in comparison to farmer, manufacturer and other capitalist, as their income will expand and they will be benefitted according to the situation. It is true that the capitalist would be benefitted, if the wages price fall. The major question here is what should be done to lower them? Increase or decrease in value of money, labour that is being used to produce commodities, will not decrease the money profits. It might fall value of money prices. If the raw produce price falls it will affect the commodities also. Fall in their price would not decrease the money income of the producer. If he is selling a commodity at a lower value it would be because one of the ingredients value has fallen.

Mr. Malthus also says that last production does not add much to rent in a developing country, so the corn has to be imported from other rich country. But it is of no use if the price of corn is not less than the home country. In this observation, according to the author, Mr. Malthus is

right. Rent is affected by the price of corn, Higher the rent higher the price, lower the rent lower the price. Foreign corn will never be the part of market competition. After the price of fall of corn, it will effect landlord, landlord might use the property for other purpose, and corn will be imported. From the loss of rent there will be a loss of money value but there will be gain in wealth, as the amount of productions of other produce will increase.

For example there are two people one is employing his capital in agriculture and the other one in manufactures. Agriculture produces net value of 1200 pounds, so 1000 will be the profit and 200 will be paid as the rent. Manufactures is producing 1000 pounds. Suppose if we are importing corn from any foreign country, the same amount of corn i.e. 1200 pounds that we produced in our country will be imported at the rate of 950 pounds. So there will be addition 50 pounds to the purchase in this case. But if agricultural produce is 1200 and manufactures is 1000, total net revenue of the country is 2,200 pounds, in paying rent situation the net revenue of country will also be reduced to 2000 as 200 pound will be as rent. This shows that the consumption of products will be almost done in same amount in both cases, there will be addition of 50 pounds in the case of foreign imports.

So here is the major question which arises is advantages of importing and growing corn. Thus import of corn can only happen if the imported corn is cheaper in every respect than the home produced corns.

Conclusion: Thus Mr. Malthus has said that Adam Smith's observation was true about the production in agriculture. He said that if there is unequal quantity of labour employed in manufacturing, it would never benefit production in agriculture. Adam Smith correctly speaks of value, but he is wrong about riches i.e. net worth. He has defined riches/ net worth as the necessities, conveniences and enjoyments of human life. One set of necessities cannot be compared with another set of necessities. Value cannot be measured by any standard, it is different perspective for different person.