Iosr Journal Of Economics And Finance (Iosr-Jef)
E-Issn: 2321-5933,P-Issn: 2321-5925.Volume 14, Issue 5 Ser. 7 (Sept. – October. 2023),Pp 43-52
www.Iosrjournals.Org

Fundamentals Of The Classical Economic School: Particular And Divergent Elements Of The Marginalist Theory

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Abstract:
Background*: This study aims to deepen the question of whether or not there is a continuity between classical and marginalist theories. Some economists see marginalist theory as a revolutionary concept in economics, while others see it simply as a continuation of the work of classical economists. The two theories' relationship lies in how they approach the value of commodities. While the marginalist theory focuses on marginal utility and consumer demand as determinants of value, Ricardo's theory of labour value focuses on work as a source of value. We will examine this relationship by comparing different interpretations of Ricardo's wage theory, the classical and neoclassical worldviews, the theory of marginal productivity, the Ricardo surplus theory, and the self-adjustment mechanisms of these schools. This exploration is crucial for a deeper understanding of the evolution of economic thought and how it has influenced contemporary economic theory. By examining the similarities and differences between the classical and marginalist approaches, we can understand the fundamental principles of modern economic theory. We will explore the nuances of Ricardo's wage theory, which has been debated among economists for centuries.*
Methodology: *Furthermore, we will compare classical and neoclassical worldviews and how they have shaped economic thinking. In addition, we will deepen the theory of marginal productivity, evaluate its strengths and weaknesses, and compare it with Ricardo's surplus theory. Finally, we will examine the self-adjustment mechanisms of these schools and their impact on modern economic theory. This study is essential to the ongoing discussion on the relationship between classical and marginalist theories. By exploring the parallels and differences between these schools of thought, we can better understand the evolution of economic theory and its impact on contemporary economic thinking.*
Conclusion: *There are common points between the classics and the marginalists as regards the stability and convergence of the economic system and the role of money in economics. Marginalists inherited the belief that the economy adjusts itself as if an invisible hand were working again. However, the path these schools take to reach these conclusions is distinct.*
However, there are some differences between the foundations of these schools. Some of Ricardo's findings were not satisfactory to marginalist economists when explaining the full employment of workers in the short term. They looked for a new way to fix this failure.
Key Word*: natural wage; equilibrium wage; Ricardian labour-value theory; merchandise money*

Date of Submission: 17-10-2023 Date of acceptance: 27-10-2023

I. Introduction

This study aims to deepen the question of whether or not there is a continuity between classical and marginalist theories. Some economists see marginalist theory as a revolutionary concept in economics, while others see it simply as a continuation of the work of classical economists. The two theories' relationship lies in how they approach the value of commodities. While the marginalist theory focuses on marginal utility and consumer demand as determinants of value, Ricardo's theory of labour value focuses on work as a source of value.

We will examine this relationship by comparing different interpretations of Ricardo's wage theory, the classical and neoclassical worldviews, the theory of marginal productivity, the Ricardo surplus theory, and the self-adjustment mechanisms of these schools. This exploration is crucial for a deeper understanding of the evolution of economic thought and how it has influenced contemporary economic theory. By examining the similarities and differences between the classical and marginalist approaches, we can understand the fundamental principles of modern economic theory. We will explore the nuances of Ricardo's wage theory, which has been debated among economists for centuries.

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Adam Smith, David Ricardo, and Karl Marx are considered economists from the classical school of thought. On the other hand, Jevons, Menger, and Walras are considered marginalist economists. In the study of the classics, particular attention will be paid to the work of David Ricardo for his superiority in terms of concision, rigour, and clarity relative to other authors.

The origins of the neoclassical perspective in economics have been debated in the History of Economic Thought. Marshal and Casarosa support that these foundations can be traced back to Classical Theory. Casarosa argues that to accept this proposition, we must move beyond the conventional understanding of Ricardo, as presented in Pasinetti's model. The author suggests that the Pasinetti model, being static, fails to establish a connection between population growth and the demand for jobs.

II. Natural Wages versus Equilibrium Wages

Casarosa argues that the real market wage and profit rates do not converge for natural equilibrium values but rather for equilibrium values. There would only be equality between the equilibrium and natural values in a static or dynamic equilibrium situation. Casarosa (1985) also argues that this would be the case in Ricardo's theory, as Ricardo himself argued.

During the processo of economic process the wage rate remains above its natural level (Ricardo, 1821, p. 94-95), in CASAROSA 1985, p. 45*).*

The author reinforces his argument by saying that the natural wage would only be relevant as an economic variable acting in a static analysis, not a dynamic situation. In the latter case, the balance wage would be important until the reach of the dynamic balance, when the balance salary would be identical to the natural wage.

He supports this conclusion with a quote from Ricardo (1982), which attests to the proposition that the economy would only natural wages in a state of dynamic equilibrium. In view of this citation, he concludes that his approach is closer to Ricardo's thinking.

It must not be understood that the natural price of labour, although estimated in food and in basic necessities, is absolutely fixed and constant. It varies in one country at different times and differs substantially in different countries, depending essentially on the habits and customs of the people. (RICARDO, 1982, p.83)

According to Eltis (1984), Ricardo's work could be interpreted as suggesting that if the market wage exceeds the natural wage, entrepreneurs would be inclined to replace workers with machines. This interpretation suggests that Ricardo believed in the potential for technological advancements to replace human labour in certain situations.

This section discusses whether the salary, in Ricardo's theory, is fixed or balanced. Furthermore, it seeks to establish whether wages result from socio-economic conditions, consisting of a set of basic goods whose value derives from the number of hours spent in their production, or whether the logic underlying the determination of the value of these elements is subject to the interaction of supply and demand for work. In other words, this section seeks to describe Ricardo's wage theory and understand what factors influence it. It is a static amount that remains unchanged over time or fluctuates according to the market forces of supply and demand.

Acceptance of Casarosa's proposition would remove the relevance of Ricardo's value theory since natural values would only appear in an equilibrium situation. The relevant variables would be those that balance capital accumulation and the population. The withdrawal of the value theory of Ricardo and the other classics: In this way, the marginalist theory corrected the imperfections of the classical theory by secularizing the value theory of Ricardo and the other classics to Casarosa.

The salary level may differ from the natural level due to the ineffectiveness of the population adjustment mechanism. The variation of the population and, consequently, of the labour supply would change the price of labour in the short term. The size of the population is associated with the supply of labour. A more significant number of inhabitants usually implies a greater availability of workers. This condition allows companies to have more options to hire and to promote competition among workers for employment. In this context of labour abundance, remuneration is reduced. Therefore, in a situation of population growth, the unemployment rate shows a significant increase, while wages suffer a decrease in the regions with the highest availability of labour. The opposite situation occurs when there is a reduction in the population. Thus, the population adjustment mechanism can bring the market wage to a equilibrium or fixed (natural) level. This designation of fixed or equilibrium depends on understanding the theoretical current associated with the author.

This adjustment is a long-term mechanism, since the decrease in the population would occur as a result of the reduction in the fertility rate and the increase in the mortality rate of the economically active population. In this context, the action of the trade unions also loses negotiating power with the increase in population.

Pasinetti (1981) refutes the adjustment mechanism of Ricardo. According to the author, wage dynamics are determined mainly by factors such as labour productivity, income distribution, and workers' bargaining power rather than simply by the supply and demand of labour caused by population adjustment.

The result Ricardo achieved could have been more satisfactory to the marginalist economists for explaining the full employment of the working person in the short term, and neoclassic economists presented a new mechanism to correct this imperfection. First, they abandoned the Ricardian conception of the "natural price of the natural", explaining the current level of wages at the point of balance between supply and demand for labour. Therefore, there is no "natural wage" around which the wages paid at the different levels of wages, depending on the supply and demand of work, oscillate.

III. The Ricardian labour-value theory in determining the economic value of goods

According to Pasinetti, Ricardo's theory is fundamentally based on the cost of production in terms of the quantity of labour. The amount of labour required to produce goods determines the cost of production. Pasinetti believed that this theory of value was crucial in understanding o arcabouço teórico ricardiano.

Thus, the value of a commodity is determined by the amount of labour necessary to produce it. He believed that labour was a source of value in the economy and that a commodity's production cost was determined by the amount of labour incorporated into it. Therefore, the price of a commodity would be determined by its cost of production, which in turn would be defined by the amount of labour necessary to produce it.

According to Pasinetti, the central tenet of Ricardo's theory is the relationship between the quantity of labour and the cost of production. In other terms, the amount of labour required to produce goods determines the cost of production. Pasinetti believed that this theory of value was crucial to understanding the Ricardian theoretical framework. Therefore, Pasinetti understands that the central principle of Ricardo's theory is the relationship between the quantity of labour and the cost of production. O autor respalda seu achado com a citação de Ricardo (1982):

The value of a commodity, or the quantity of any other for which it can be exchanged, depends on the relative amount of labour necessary for its production and not on the greater or lesser remuneration paid. Ricardo (1988).

In Pasinetti's perspective on Ricardo's work, the author believes that increasing wages would not alter the relationship between relative prices or change the value of commodities. The absence of the effect of wage increases on relative prices is because the value of commodities depends solely on the amount of labour necessary to produce them, even in a capitalist society.

$p_1x_1 - p_1R = N_1$, and

$p_1 = \frac{N_1}{x_1} - \text{R}=\frac{1}{f(N_1)}$

$p_2x_2 = N_2$

$p_2 = \frac{1}{a}$

Where,

p_1 is the price level of basic goods,

p_2 is the price level of luxury goods,

x_1 is the amount of the basic goods

x_2 is the amount of the luxury goods

N_1 is the amount of work employed in sector 1,

N_2 is the amount of work employed in sector 2,

$f(N_1)$ is the productivity of labour on land.

To sum up, Pasinetti understands that Ricardo's labor-value theory establishes that the value of a good is determined by the amount of labour needed to do it. This finding is described mathematically. In this case, the formula $p_2x_2 = N_2$ indicates that the amount of labour (N) required to manufacture a good (x) determines its price (p). According to this formula, the cost of a good is directly related to the amount of labour used in its manufacture. The cost of the commodity increases as more labour is needed. This indicates that we can locate a constant "a" that connects these variables using the formula $p_2 = 1/a$. Therefore, the equation p2=1/a relates a commodity's price (p) to the amount of labour needed to produce it.

According to the marginalist theory, the impact of a wage increase on the cost of goods and prices is distinct from the result that Pasinetti has presented. In neoclassic theory, increasing wages raises production costs and prices, altering relative prices.

The duality of exchange value and use value does not play any relevant role in classical theory. The usage value has no functional relationship with the other variables of the classical system. The usage value has no functional relationship with the other variables of the classical system. Smith uses the paradox between water and diamond to demonstrate this, regardless of the value of the use. For the classics, usage value was a requirement for production, but it was not the determinant of exchange value. It is worth remembering that Ricardo spent his entire life thinking of an invariable measure of value that would not be a measure resulting from supply and demand. Ricardo considers utility as a usage value, as being essential to the exchange value, as having absolute essence to the value of exchange, but not as a measure of that value. These merchants are interested in finding the natural and primary price instead of accidental and temporary deviations from the observed or market price. Ricardo is interested in finding the natural price instead of the accidental and temporary deviations from the observed or market price.

Pasinetti (1981) says that Ricardo believed in Say's Law, which states that the supply of goods and services naturally creates its own demand. This result means that there aren't any fundamental problems with insufficient demand. According to Pasinetti's interpretation of Ricardo's theory, producing goods and services inherently creates the corresponding demand required for their purchase. Besides that, this view suggests that the composition of total expenditure is irrelevant since all production will be demanded and consumed. Therefore, economic problems are seen primarily as issues of production and distribution of resources, not aggregate demand.

Thus, in this theoretical framework, entrepreneurs invest all accumulated savings or lend to others to invest. Economic actors wish to refrain from retaining money as an end in itself. Workers must spend their income on necessary things. For example, equations using wheat as an essential good represent this action

In this framework, workers spend their income on necessary things, wheat.

$$w = p_1 x$$

where,
w is the wage rate;
x is the natural salary; and,
p_1 is the price of essential goods

While capitalists invest in the accumulation of capital, also with wheat in the example.

$$r = \pi \frac{p_1}{k}$$

where,
r is the rate of profit,
π is the amount of profit,
k is the amount of capital.

Landowners spend their resources on luxury goods:

$$p_2 x_2 = p_1 R$$

Where, R is the income of the land.

The analysis of these equations shows that the economic agents, workers, entrepreneurs and landowners do not save in the Ricardian model. This is because the Ricardian model focuses on determining the optimal allocation of resources and the distribution of income among different factors of production. In this framework, saving is not considered as it does not play a significant role in the overall equilibrium of the model.

Discussion

Ricardo's theory of labour value argues that the labour required to produce it determines its value. Ricardo argued that the value of a commodity is related to the worth of labour embodied in it.

This finding by Ricardo differs from the marginalist theory. The marginalist theory emphasises the importance of marginal utility in determining the economic value of a good or service. Thus, neoclassics criticised Ricardo's theory of labour value, arguing that the value of a commodity is subjective and varies according to individual consumer preferences. The marginalist theory also highlighted the importance of production costs in determining the value of commodities, including labour and other production factors such as capital and land.

By focusing on marginal utility and consumer demand as factors of economic value, the marginalist theory is very different from Ricardo's work value theory. It also considers production costs when figuring out the value of goods.

IV. The Merchandise Money: a neoclassical acquisition of the classics.

For Ricardo, money was a commodity that actors selected based on the physical characteristics appropriate for its use as a means of exchange. Ricardo's perspective on money as a commodity with specific physical characteristics highlights the importance of these attributes for its effectiveness as a medium of exchange.

His understanding of money provides insights into the qualities that facilitate smooth and efficient economic transactions within a society.

As a consequence of the notion of money as a commodity, Because of the possession of money, it would only promote consumption. The consumer has an insatiable demand for luxury goods because the logic is that of consumption and the production of the products by the firms to meet the existing 1demand.

Ricardo claims the entrepreneur produces to consume or sell. The producer sells with the intention of buying another commodity, which may be immediately useful to him or may contribute to future production. As a result of producing goods, he becomes either a producer or a purchaser and consumer of goods others produce.

Thus, the monetary variables are neutral for Friedman and Schwartz (1963, p.696). Therefore, monetary variables are neutral because changes in the money supply do not have a real, long-term effect on production, employment, or economic output. Instead, they argue that technology and productivity impact economic growth. This fact makes the monetary policy inoperative in the long term:

"In the long run, money is a veil. The real forces are the capacity of the people, their industry and ingenuity, the resources they commend, their mode of economic and political organization, and the like". FRIEDMAN & SCHWARTZ (1963, p.696).

Ricardo's finding is similar to marginalist economists: the economy under market forces adjusts itself through an invisible hand. The existence of permanent unemployment and, hence, the non-automatic adjustment of full employment was attributed to market imperfections, such as the rigidity of nominal wages or interest rates.

V. Differences between Classical and Marginalist Schools

The first difference we could make between the findings of these schools would be through the explanations they give for the formation of exchange values and prices. For the marginalists, the labour spent on the production of commodities does not explain these prices; the marginalistic school denies labour as a source of value. For Jevons, the utility determines the exchange value, Jevons (1996)

The amount of labour involved in production explains how the value of classics develops. As we can see from Smith, for whom labour was the source of value for all commodities, the value of each commodity was equal to the quantity of labour incorporated into it.

In the ancient and primitive stages preceding the accumulation of wealth or capital and the appropriation of land, the proportion between the quantities of labour necessary to acquire the different objects seems to be the only circumstance capable of providing some standard or pattern for exchanging these objects for one another. For example:

(…) *if in a hunting nation, it costs twice as much to kill a deer as the deer, then a hunter must be exchanged for (or worth) two deer. It is natural that what is normally the product of two days or two hours of labour is worth twice as much as a day's or an hour's product*. (SMITH, 1983, p 101).

This is because, in the period preceding the period of capitalist accumulation, the total product of labour belonged to the worker, and, therefore, a quantity of labour contained in a commodity regulated the quantity for which it could be exchanged. However, when capitalist accumulation is carried out, the worker is forced to share the product of his labour with the one who employed him and the landowner. Thus, the commodity's price is divided into three components: the wages paid by the workers, the land income, and the profit. The rate of profit for the classics was a remuneration at the bottom of the resources needed for production. In contrast, in the marginalist view, a profit rate was only a reward for one of the factors of production.

One might think that labour has ceased to be a real measure of all values since the price of commodities is no longer regulated only by the value of incorporated labour. Smith, however, adds that the actual value of all components is determined by the amount of labour each can buy or trade. Thus, labour measures not only the value of that part of the price constituted by the worker's own wage but also income and profits. Therefore, when calculating the value of labour, it is crucial to consider the worker's wage and the income and profits generated by economic activity. This calculation format is because work is intrinsically linked to other productive factors and how the entire economic system works together.

For Smith, the principles governing wages and profits are very different. Wages are determined around the subsistence minimum, which refers not only to the workers' physical needs but also to their social ones, which may vary depending on the place and time. Profits are the element that motivates the capitalist to employ his resources in an undertaking. It is proportional to the value of invested capital and tends to be unique in all sectors due to the balance caused by the situation of free competition. For Marx (1983), the value of commodities derives from labour employment. For analytical reasons, Marx divides labour into two categories: abstract labour, which gives value to the commodity, and concrete labour, which provides usage value. Use value is fundamental for goods to be accepted on the market. Thus, the commodity in Marx has value in use and exchange. Goods are exchanged for their market value.

However, because the value is social, that is, people attribute a higher value to a product for any reason, it may be that some commodities can be exchanged for others of higher value. The acceptance of Say's Law by the classics and neoclassic, the concept of commodity money, the free movement of capital, and the existence of endogenous mechanisms that bring the economy to balance are hypotheses that are present in both theories.

The classical theory of Ricardo and Smith presents some endogenous mechanisms that lead the economy to balance, the main ones being: 1. Mechanism of supply-demand: According to this theory, the interaction between supply and demand is the main mechanism of balance. While production costs impact supply, demand determines prices for goods and services. As supply and demand adjust, prices stabilise, bringing the economy to balance. 2. Mechanism of wage adjustment: The classical theory argues that the supply and demand of labour determine wages. If the labour market is unbalanced with excess supply or demand, wages adjust to balance this situation. For example, if there is an excess supply of labour, wages tend to fall, encouraging greater employment of workers and, consequently, bringing the economy to balance. 3. Mechanism of savings and investment: The classical theory postulates that the financial market balances society's savings and companies' investments. If there are excessive savings and insufficient demand for investment, interest (capital price) decreases, stimulating the making of investments. On the other hand, if savings are insufficient to meet investment demand, interest rates rise, discouraging new investments. Thus, the savings and investment mechanism seeks to balance these two variables.

These are some of the endogenous mechanisms present in the classical theory of Ricardo and Smith that lead the economy to equilibrium. It is important to emphasise that this approach focuses mainly on microeconomic aspects, such as the interaction between supply and demand for goods, supply and demand of labour, and savings and investment, to explain the functioning of the economy. In classics, the main adjustment mechanism is the variation of wages, which would also be a stabilising element of the system.

However, economists in these schools have different concepts of wages and offer distinct explanations for wage variations. Thus, although they reach the same result in terms of the stability and convergence of the economic system, the path they take is different.

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Marginalist theory elaborates an elegant economic model in which all variables are technically defined and coherent internally. For this reason, this theoretical framework is free from internal criticism and is not subject to any limitations in its analytical domain. Therefore, defining social values in the economic field makes no sense. In other words, the wage is an endogenous variable in the marginalist model, whereas in the classical models, it is an exogenic variable. In the neoclassical core, the values of balance are found. And since the dynamics of economic phenomena are exchange, the exchange principles will be the conceptual foundation of this paradigm. The distribution of income is explained by supply and demand factors. Thus, the rate of profit is described as the remuneration of one of the factors of production.

Another differentiation between classic and marginalist economists is how these schools treat using machinery.

Food prices will rise with capital and population growth because producing food will be more difficult. The consequence of an increase in the price of food will be a rise in wages, and any increase in wages will induce, in a more significant proportion than before, the saved capital to be used in machinery. Machines and workers are in constant competition, and the first ones can often only be used if the price of workers rises. Ricardo 1982, p. 266)

Therefore, in the Ricardo model, the use of machinery is endogenous to the accumulative process. Their adoption is a consequence of the growth process. According to the statement above, in Ricardo, factors are substituted by replacing men with machines. If wages were cheap, the introduction of machines would be stopped, but machines would not be replaced with men. The Casarosa model contains the claim that men replace machines in Ricardo.

According to the following equation, population growth would reduce the wage growth rate, decreasing the population growth rate. When unemployment increases, the birth rate drops.

The following equation gives the supply of capital:

$$\frac{1}{k}\frac{d_k}{d_t} = a\,(f'(n) - w) - w/w = a\,r$$

In equilibrium:

$$\frac{1}{n}\,dNd_t = \frac{1}{k}\frac{dK}{dt}$$

According to the equation above, in cases where the market wage was higher than the natural, N (or $\dot{N}$) would be higher than K, resulting in decreases of w and increases of r. We would then have a decrease of N and an increase of k to the point where the point of equilibrium occurred. In that case, we would have the replacement of men by machines in the production process over time. The opposite situation would happen when the natural wage was higher than the market wage when we would have the machines replaced by men.

In marginalist theory, the entrepreneur can replace capital with labour and capital to produce the same production level. Similarly, in the Casarosa model, when the market wage increases above the natural wage, the population growth rate, $1/NdN$, increases, while the growth rate of capital employment, $1/kdk$, increases, resulting in the replacement of men by machines. This process would continue to the point of equality between these equations. On the other hand, when the market wage is above the natural wage, the population growth rate is increased, and at the same time, the growth rate of capital employment is raised to the point of equilibrium.
1/n dn=1/k dk

$$\frac{1}{ndn} = \frac{1}{k\,dk}$$

This view of Casarosa that admits the replacement of machines by men interpreting the Ricardian model finds no similarity with other classical authors. This view differs from the traditional interpretation of the model of Ricardo and Adam Smith.

Ricardo's traditional viewpoints only relate to the substitution of men for machines:

*The same cause that raises the price of labour does not raise the value of machines, and therefore, with every capital increase, a greater proportion of it will be employed in machinery. With the capital increase, the demand for workers will increase, but not in the same proportion of that increase; the rate will necessarily decrease. (*RICARDO, 1982., p. 266)

The treatment given by Ricardo to the labour factor differs from what occurs in the marginalist model. The accumulation process encourages the employment of machinery, which is endogenous to the economic system. According to Smith, the employment of machinery and the division of labour resulting from machining made it possible to increase work productivity. By introducing a machine, the division of labour alters the productivity.

VI. Differences between the Classic Surplux Theory (Ricardo) and the Neoclassical Theory of Marginal Productivity

The classical Theory of Surplus (Ricardo) asks how the different incomes that make up the capitalist surplus, profit, income, and interest, are formed. It is thus intended to understand how these incomes are distributed, whose expression in exchange value constitutes a defining characteristic of the capitalist system.

According to the Ricardian theory, the capitalist system would tend to a progressive decrease in profits and an increase in land income as a result of the low productivity of labour in the marginal lands. Ricardo's thesis can be, in general terms, demonstrated as follows:

Capital expansion reaches the best-quality lands at the first moment of capitalist development, which, existing overabundantly, do not confer income on their owners. This income is called a differential. This income is determined according to the laws of competition between owners. At this stage, the conditions of agricultural production determine the profit rate of this sector, which extends to all other sectors of the economy. The rule of profit uniformity can explain this phenomenon. Under this rule, the prices of commodities would tend to be fixed through competition at levels that equal the profit rates in all branches.

At a second point, when the best-quality lands have already been wholly occupied, capital expands to the worst-qualitative lands. Given the production conditions of the worst lands, to obtain the same level of product, more workers must be employed for the same wage, from which it is concluded that their productivity is lower. This low productivity is not related to the number of land units occupied but rather to a variation in the land quality. As the quality of the land deteriorates, productivity decreases, causing the rate of profit to fall, first in the agricultural sector itself and then in all sectors of the economy, so that the profit rates are equal.

In sum, the neoclassical marginal productivity theory is not a generalisation of the classical theory of surplus, although this idea has been quite widespread. Suppose you use one more unit of a factor, and everything else stays the same. In that case, the marginal productivity of that factor is the difference between the output that can be obtained when that factor is not used and the output that can be obtained when it is used. Because of this, marginal productivity depends on how factors are combined rather than their own amount, which is what happened in the old theory of surplus. The difference, therefore, lies in the central role attributed to the natural conditions and the efficiency of the land in Ricardo. In contrast, for the marginalists, the major part is conferred on a combination of factors.

One essential condition for measuring a factor's marginal productivity is that only this factor varies. In the Ricardian theory, it is not possible to apply this concept: as the number of workers employed varies, so does the earth factor, and even if the number of earth factor units remains constant, from a certain point, its quality will be different. To be clear, the Ricardian theory differs from the neoclassical theory in explaining why productivity declines. Thus, it would only be possible to apply the concept of marginal productivity to the Ricardian theory in the specific case where the labour factor varies. At the same time, the land remains constant, including its quality. Or, it is only possible to assume that the marginal productivity theory constitutes a generalisation of the surplus theory if we introduce the hypothesis of the homogeneity of the factors.

According to the marginal productivity theory, all productive factors can be alternatively considered fixed or variable, depending on whether the analysis is short-term or long-term. Due to the limited land factor, the Theory of Surplus does not satisfy this requirement. This means that after a certain point, the best units of land are used up, and worse land is used instead, which makes the factor of production different. The Ricardian theory can determine the remuneration of factors except land since, being this fixed factor, land income arises from waste. In the neoclassical theory, the notion of waste disappears; all income is determined solely by the concept of marginal productivity. Thus, there is no reason why income should be a residual factor since if we consider fixed capital instead of land, we can come to similar conclusions and believe that the “waste” leaves income and becomes profit.

VII. The Mechanism of Self-correction of the Economy in Ricardo and the Neoclassical Correction

The natural price of labour in Ricardo depends on the price of food, the kinds of basic necessities, and the amenities required to sustain the worker and his family. With the development of society, the natural price of labour always tends to rise. In other terms, when capitalists accumulate capital, demand increases, and the market wage rate rises above its natural.

However, Ricardo believes that such a situation was temporary because the conditions of the workers made them prosperous and favourable; they created healthy and numerous families, and population growth brought the wage rate to its natural level. Besides, economic development causes an increased demand for agricultural production, which leads to the use of less fertile lands that gradually require more labour, resulting in higher food prices.

According to Ricardo, the market price of labour converges to the natural price because the variation of the population leads to a change in the market wage until it converges with the level of subsistence (natural). Ricardo refers to a long-term mechanism since population adjustment occurs with variations in the birth rate. However, he refers to this mechanism as if it operated continuously by adjusting the labour force and capital accumulation. The population adjusts to reconcile the two rates.

Ricardo's result was unsatisfactory to the marginalist economists in explaining the full employment of labour in the short term, and they sought a new mechanism to correct this imperfection. First, they abandoned the Ricardian conception of the "natural price of labour" and explained the current wage level by balancing supply and demand for labour. Therefore, there is no natural wage around which the wages paid at the different levels of wages, depending on the supply and demand of labour, oscillate.

Secondly, the degree of substitutability between the factors has changed. In Ricardo, the rise in the price of labour may lead to an increase in the employment of machinery. However, this does not mean that these factors can be replaced to the extent that the marginalists claim. That is, the fact that capital becomes more expensive does not lead entrepreneurs to replace equipment with men because the loss of efficiency would be disastrous and could thus only slow the proportional increase of machinery concerning the labour force. In Marx (1983), the adoption of machinery occurs due to labour-capital opposition and the dispute between capitalists. Capitalists are concerned with producing at the lowest cost and quantity, so exchanging equipment for men would be harmful and could result in a loss of market for the one who adopted it. Again, we would have expected that the heightening of capital would lead to a decrease in the rate of increase in the organic composition of capital, never a decline. On the contrary, we have a growing mechanisation of the labour process in Marx's work. However, in neoclassical theory, the problem comes to have another connotation: the factors of production are seen as substitutable to each other, so it is possible to combine these factors in various proportions to obtain production.

As for the first point, relating to the price of labour, the marginalist principle explains the supply and demand for labour. The marginal uselessness of labour determines the supply of labour: people accept to work to the extent that an increase in their work does not cause them greater dissatisfaction or even equal to the satisfaction they get from the salary they receive for this additional amount of labour; thus, the supply of work increases as the wage is raised. On the other hand, demand for labour is determined by the marginal productivity of labour: companies employ workers to the extent that the product generated by an additional amount of labour does not become less or even equal to the cost of this labour. Thus, demand for labour grows as wages are reduced.

Marginalist economists present a new explanation of the automatic mechanism of full employment with full use of capital equipment. When there is an eventual labour shortage in the capital stock, wages rise. The ratio between the price of labour and the capital price becomes greater, stimulating the substitution of labour for capital, thus avoiding the appearance or maintenance of vacant capacity in the productive apparatus. When there is an occasional surplus of the labour force concerning capital equipment, this exerts a low pressure on wages. Lower wages make it possible to employ the surplus workforce, ensuring full employment. Since there are endless combinations of labour and capital factors (since these are interchangeable), one can increase the volume of employment even if the stock of fixed capital remains unchanged. Therefore, given the capital stock, the only element necessary for obtaining or preserving full employment is the perfect flexibility of wages.

VIII.Conclusion

Undoubtedly, there are common points between the classics and the marginalists as regards the stability and convergence of the economic system and the role of money. Marginalists inherited the belief that the economy adjusts itself as if an invisible hand were working again. However, the path these schools take to reach these conclusions is distinct.

According to economists who believe in the continuity between the work of the classics and the neoclassics, the marginalist theory would have taken advantage of various concepts of the Classics, such as laissez-faire, the invisible hand, and the perfect competition market.

There is indeed adherence to these ideas by the neoclassicists. Consequently, the market institution was a system that operated independently of man's will. That is, the actions of the rulers could not balance the market but only hinder it. The market would adjust the allocation of resources. Therefore, classical economists believed that the economy has endogenous mechanisms that lead it to full employment, which was ensured by the absence of elements that could disrupt the reach of the automatic equilibrium of the economy.

As a result, some of Ricardo's findings were not satisfactory to marginalist economists when explaining the full employment of workers in the short term. They looked for a new way to fix this failure.

First, they abandoned the Ricardian conception of the "natural price of wages", explaining the current wage level by balancing supply and demand for labour. Therefore, there is no "natural wage" around which the wages actually paid at the different levels of wages depend on the supply and demand of work oscillate.

Secondly, the degree of substitution between the factors has changed. In Ricardo, the price of labour can lead to an increase in machinery. However, this does not mean that these factors can be replaced to the extent that the marginalists claim. That is, the fact that capital becomes expensive will not lead entrepreneurs to replace equipment with men because the loss of efficiency would be disastrous; it could only slow the proportional increase of machinery with the labour force.

As for the first point, concerning the "price of labour", the marginalist principle explains the supply and demand for labour. The supply of labour is determined by the "marginal inutility of work": people agree to work to the extent that an increase in their work does not cause them greater or equal dissatisfaction than the satisfaction they get from wages. On the other hand, demand for labour is determined by the "marginal productivity of labour": companies employ workers to the extent that the product generated by an additional amount of labour does not become less or even equal to the cost of this labour for the company. Thus, demand for labour grows as wages are reduced. Lower wages make it possible to employ the surplus workforce, ensuring full employment. Since there are endless combinations of labour and capital factors (since these are interchangeable), one can increase the volume of employment even if the stock of fixed capital remains unchanged. Therefore, given a specific capital stock, the only element necessary for obtaining or preserving full employment is the perfect flexibility of wages.

Marginalists explain the level of wages as a result of the interaction between supply and demand for work. The marginal utility of labour would determine the supply of work": people agree to work to the extent that an increase in their work does not cause them greater or even equal dissatisfaction than the satisfaction they get from the salary they receive for this additional amount of work; thus, the supply increases as the wage rises. Furthermore, they believe that the substitution between the factors of production is great. Thus, the capital increase would lead entrepreneurs to replace equipment with men.

The value in classics results from labour employment, whereas in marginalists, the value derives from the usefulness of the product in question. The decreasing marginal productivity of the neoclassic economists cannot be regarded as a generalisation of Ricardo's differential income because of the distinct hypotheses involved in the two analytical processes.

In classics, wages are a socio-economic category. This could be an explanatory element of the fact that market wages remain above the natural level during the growth process.

We, therefore, believe that Casarosa's theoretical sophistication to show that Ricardo's relevant salaries were those of equilibrium has no relevance. It is worth remembering that using theoretical sophistication to defend old ideas has been a common practice for marginalists.

The wage determination in the marginalists is the fair remuneration to the worker determined by relative scarcity, that is, due to the interaction of supply and demand having no resemblance to the classical fixing of wages. Another difference would be the self-correction of the classical wage economic system. Another difference would be the self-correction of the classical economic system that occurs through the variation of the level of the market wage versus the natural wage, which occurs in the long term through population adjustment. For the marginalised, the adjustment takes place in the short term, with variations in the salary level. The fastest adjustment is made by marginalists working with equilibrium variables.

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