

Difference: Ricardian Theory and Modern Theory | Rent

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On a close examination of these two theories, the following major points of distinction are found: (a) Application of the Theories:

Ricardo restricted his theory to the rent from land only. But modern writers have extended the rent theory to all kinds of factor incomes. It means that rent is not peculiar to land only, it may arise in the incomes of other factors as well, i.e., in wages, interest and profits.

(b) Origin of Rent:

In the Ricardo's theory it is held that rent of land arises on account of differences in fertility or situation of the different plots of land.

But, according to the modern writers, rent arises on account of the inelasticity of supply of factors.

(c) Transfer Earnings:

According to Ricardo, land has no supply price as its production does not involve any cost to the society. This becomes correct when the problem is considered from the standpoint of the society as a whole.

But the modern writers have shown that, from the standpoint of the individual or of a firm, land has a minimum supply price.

Again, Ricardo considers land as having a single use and so it has transfer earnings, but the modern writers have shown that a particular plot of land may have alternative uses and so it has alternative or transfer earnings.

(d) Relation between Rent and Price:

According to Ricardo, rent is a surplus of price over the cost of production and so it does not and cannot enter into cost and price. But, modern writers have shown that rent, considered from the standpoint of the individual, enters into cost and price.

Conclusion:

In spite of the various shortcomings of the Ricardian theory, it cannot be discarded as Stonier and Hangué remark. **“The concept of transfer earnings helps to bring the simple Ricardian theory of Rent into closer relation with reality.”**