Ricardo Effect

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Ricardo

Circ. vs. fixed K.

Circ. K delivers goods + creates income à T
Circ. "supports labor" or "advances subsistence".
It also "sets labor in motion"

K-int. products are insensitive to w.r.
(Thus despite hi w.r. of frontier, pile up K. Indeed because of hi w.r.)

Freezing too much K into fixed cap. reduces the fund of circ. K, on which labor depends.

	I.	II	III
Fixed	7,000	7,000	13,500
Circ.	13,000	13,000	5,500
Profit	2,000	2,000	2,000
Gross Produce	15,000	15,000	7,500

Spending by firms is a fn. of cash flow.
Cash flow is a fn. of K & T.

Simplest model:

Berries cost is 90% labor.

Barley is " " 25% ".

If wages rise, 10%, and price is fixed, land shifts to barley. "Low i.q."

If price varies, berries rise more than barley.

When sequential K is involved, and wages rise 10%, this also requires 10% more advance K. So, if price is variable, it also rises 10% — unless:

a. Advance rent falls

b. Profit falls

c. K is subbed for labor — spreading labor over more time. Intuitively, this is what you do.

Now, ~~Brewing~~ Housing involves 40 yrs. of seq. K, (and rent controls,) so bldg. labor is 20%.

Tomats involve very little seql. K.

If wages rise 10%, and prices are fixed, tomats are wiped out — no return to K. In housing, return to K is reduced only a little ... ~~just~~ Thus, K is the residual imputee, as land is in the barley-berry case.