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Short Research Article

On Technological Progress: Analysing Ricardo's Theory on Unemployment

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1. Introduction

Although Adam Smith (1723-1790) was the founder of the Classical School and set its dominant tone, David Ricardo (1772-1823), was a leading figure in further developing the ideas of the school. Ricardo demonstrated the possibilities of using the abstract method of reasoning to formulate economic theories. He extended the scope of economic inquiry to the state of unemployment in the face of technological acquisition. Around Ricardo rallied an ardent band of scholars who enthusiastically disseminated his ideas. However, this paper seeks to analyse his theory of unemployment given technological adopting in the contemporary development economics perspective.

To begin with, Thomas Robert Malthus (1766-1834) paved the way for David Ricardo, who argued that capitalists satiate their wants and hence save large sums of money. Unless countered by spending by landlords, effective demand will be insufficient to purchase all of the output. The resulting superfluity of goods will result in producers reducing their production leading to the discharge of employees.

David Ricardo agreed that an impermanent superfluity could occur but contended that full production and employment normally would succeed. He invoked what today is known as 'Say's Law of Markets' to defend his position. This law states that 'supply creates its own demand.' According to this standpoint, the process of producing goods generates sufficient wage, profits and rental income to buy the goods.

In addition, he argued that the drive to purchase either consumption or capital goods matches the capacity to do so. In fact, he posited that overproduction of a particular article of trade might be as a result of pitiable farsightedness, with such a circumstance, however, automatically correcting itself. He further said if product sells at a loss, resources tend to shift to the production of other commodities for which there evidently be greater demand, thus, correcting the foregoing misjudgments.

Moreover, capitalists' savings give rise to investment expenditures that create demand for factors of production and, therefore, income to the suppliers of these resources and this, would result in the increased demand for labour. Accordingly, effective demand would always be present at a level adequate to purchase the amount produced.

2. On Technological Progress

Now, in the case of economies adopting technology in their operations, Ricardo raised the possibility of technology having no effect on unemployment. He supported the view that the introduction of technology would help all three major classes of income receivers. Their money incomes, he said, would remain the same while their real incomes would rise, because goods could be produced more cheaply with machinery. Even workers would gain because the same labour would be demanded as before mechanization, and therefore, nominal wages would not fail. Even if the number of workers in one industry became excessive, capital would shift to some other industry and increase employment there. The only inconvenience would be the temporary maladjustment that occurs when capital and labour move from one employment to another.

This paper argues that the introduction of technology would benefit the landlord, and the capitalist would frequently be very deleterious to the labour market in the short-run, relative to the long-run periods. On one hand, in the short-run, if more capital were invested in technology, less circulating capital would be available for the wages fund out of which wages are paid. In other words, capital is scarce, and the share that is channeled towards technology represents a deduction from that allocated to wages and this would negatively impact on the uptake of labour in the labour market.

On the other hand, in the long-run, the effect of the introduction of technology might be more favourable than the short-run effect. Even if the money profit of the capitalist remains the same after an increased investment in technology, more can be set aside because the cost of producing consumer goods decreases. Thus, the capitalist can invest more, and would result in the re-employment of the jobless labour force. Technological unemployment is, therefore, likely to be only a short-run phenomenon for the workers. Besides, the adoption of technology in the production process good for developing and limping economies as it boosts productivity for exports which are key for positive growth.

3. Concluding Remarks

It follows, therefore, that the government should never discourage the use of technology, especially in developing economies like Zimbabwe. The capitalist who is not permitted to receive the greatest possible profit from the use of technology at home will invest capital abroad. Yes, the demand for labour will be reduced if technology is introduced at home, but it will disappear altogether if the capital is invested abroad. Furthermore, it can be understood that technology lowers the cost of producing goods, thus, enabling countries to remain competitive in trading with the rest of the world.

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