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## Pellegrino Rossi: A Ricardian at the Collège de France?

Alain Béraud<sup>1</sup>

With the death of Jean-Baptiste Say on 14 November 1832 the Chair of Political Economy at the Collège de France fell vacant. There were two candidates for the post: his son-in-law Charles Comte, and Pellegrino Rossi, Professor of Law at Geneva.<sup>2</sup> François Guizot, the Minister of Public Instruction, opted in favour of Rossi, who was however less well-known than his rival. However, Guizot thought that it was necessary to teach, at the University, the constitutional law. He made create a chair devoted to the subject in the Paris Faculty of Law and appointed Rossi. Guizot (1860, t. 3: p. 121) explains clearly his decisions in his memoirs. He shared Rossi's conviction that teaching had to be reformed in line with the needs of the nation, that one must train economists to forestall the formation of "levellers", and constitutionalists to prevent the emergence of Jacobins - that it was necessary to train "a generation of enlightened citizens so that the same men might not first become fractious, and in time rebels." (Rossi [1820] 1857 t. 2: p. 407). So that Rossi agrees to teach the constitutional law, Guizot made him appoint also as Professor of economics to the Collège de France.

Rossi was badly received at the Faculty of Law, both by his colleagues and by the students. The economists were more benevolent. An account of his first course was printed in the *Revue mensuelle d'économie politique* (Rossi 1834). On 6 April 1842, he was elected President of the first Société de l'économie politique, and chaired the first meetings of the second. He was not merely the successor of Say at the Collège de France; he also succeeded Say as the leader of the French economists, even if some of them criticised him for more than once sacrificing economic science to the claims of political expedience (Puynode 1868: p. 439).

There is a marked lack of agreement in assessments of the manner in which Rossi's economic writings relate to those of his predecessors. Ivo Rens (1980: p. 199) presents him as a disciple of Say. Luc Marco (1988: p. 293) suggests that as an economist he was

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<sup>2</sup>Rossi (1787-1848) led a turbulent life first as an Italian, then as a Swiss and finally as a French citizen. He held important political posts in all three countries, and was assassinated while minister to Pope Pius IX - see Dufour's biography (1998) and the dissertation by Ledermann (1929).

eclectic. Puynode reproached him for the way that he borrowed from ideas put forward by Ricardo (1868: pp. 428, 442). Antoine-Élisée Cherbuliez, by contrast, thought that his strength was to have known how to make good use of classical English teaching:

A compatriot of Gioia and the successor to Say, his political economy did not repeat the errors of the Italian school, nor those of the French; he turned to the English economists. He deliberately took up their doctrines, their ideas on the aim, character and limits of political economy, and of the central questions of this science; it is these doctrines and ideas that he faithfully taught as a professor in a country ... in which there was little understanding for them, and even less taste. (1867, p. 492)

It is this proposition that I want to examine here. There are, however, few positive connections between Rossi and Ricardo. He did make use of other English classical economists, in particular of Smith and Malthus. But French liberals had long read, debated and adopted ideas put forward by Smith, and by Malthus in his *Essay on the Principle of Population*. The problem was with Ricardo: with his method, his theory of value, and his analysis of distribution.

### 1. Method

In Say's eyes, Smith had had the merit of employing a method appropriate for political economy: he moved "from regularly observed facts to general laws that were their consequence" ([1814] 2006: p. 34). He criticised Ricardo for doing the exact opposite, "sometimes arguing in terms of abstract principles to which he ascribed too great a generality" ([1819] 2006: p. 47). Say criticised neither the logical coherence of Ricardo's analysis, nor the hypotheses on which it was based. But he thought that the results which he derived from them taught us nothing.

Rossi rejected this line of argument. To make political economy a useful science it was necessary, first of all, to elaborate a pure theory. He argued that one must distinguish three kinds of facts and ideas. One could be interested in wealth from both a theoretical and a practical point of view; and moral and political considerations were of importance if one wished to understand social problems and propose solutions. Three types of knowledge corresponded to these three considerations: *pure* or *rational* economics; *applied* economics; and *social* economics.<sup>3</sup> Their aims and methods are different. The object of rational economics is truth, being based on a small number of general facts and operating deductively. This is more a science of reasoning than an observational one. Applied economics was directed to action, science being here simply a means, seeking to integrate analytically a series of particular facts that pure economics neglects. It constantly strives to make use of observation. Finally, social economics links other disciplines with political

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<sup>3</sup>Rossi did not explicitly introduce this last term, which was later employed by Léon Walras; but the basic idea is quite definitely there.

economy, in particular ethics and politics. One should not seek the solution to a social question by using one economic principle, but other dimensions of the problem had to be taken into account, and other principles employed.

By confirming that political economy, considered as a science of wealth, is a rational science (a science of reasoning) which begins with general facts and deduces from them a series of propositions, Rossi in fact endorses the approach that Ricardo followed in his *Principles of Political Economy*. Once hypotheses have been formed, it was not at all necessary to make a comparison between results and experience at each stage of the argument, as Say had claimed ([1819] 2006: p. 47). The principle that Rossi defended here was shared more or less explicitly by a number of economists, in particular by Léon Walras<sup>4</sup> ([1874] 1988: p. 52): that pure economics was the foundation for both applied and social economics.

## 2. Value

In the first lectures that Rossi gave at the Collège de France Rossi made use of Smith's distinction between use and exchange value (1834: p. 337). Like Say, he maintained that "use value is the foundation of exchange value", but he understood this in the same way that Ricardo did: "that which was no use to anyone is not something that can be exchanged."

He altered his analysis in the course of 1836-37. To satisfy our needs a thing can be used in two ways. It can be consumed. Utility of this kind is value in use. It can be sold, and another good acquired that is capable of satisfying our needs. This indirect utility is its value in exchange. The exchange value of a diamond is not therefore disproportionate to its use value:

The value of the diamond is perfectly proportionate to its utility, using this word in the way that economists might do. Utility as the property of satisfying a need, real or fictive ... is not of great importance. Where does the value of the diamond come from? From the intensity and the vivacity of the need that the diamond satisfies... The diamond has an exchange value proportioned to the service that is meant to give. (Rossi [1836-37] 1884, t. 1 p. 65)

His analysis differs from that of both Say and Ricardo. It is not a new idea, and Rossi reminds us that it can already be found in Aristotle (1857, t. 2: pp. 120, 125). This is important. Jules Dupuit referred to this in explaining why the price of a thing does not measure the utility which it has for the seller ([1849] 2009 t. 1: p. 245). When Carl Menger distinguished use value from exchange value he argued in the same way as Rossi ([1871] 1976: p. 228). Dupuit and Menger did not take the ideas that made them famous from

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<sup>4</sup> Walras unfairly criticised Rossi of only distinguishing theory and practice, thinking that in so doing he had distinguished pure from applied science, whereas he had only added to the confusion between them (Walras, 1879: pp. 23, 229).

Rossi; but when, much later, they read him, they realised that he had anticipated them in forming the notions that lay at the base of their own work.

To say that prices are determined by supply and demand only “conceals the depths and difficulties of the question” (Rossi [1836-37] 1884 t. 1: p. 78):

We seek the law of price: it is said to be positively related to demand and negatively to supply. Yes, but what governs demand, what governs supply? How is it that supply or demand is more one thing than another? What is the law of supply and demand? (ibid.: p. 58)

In place of the proposition that prices are determined by supply and demand, Rossi substitutes the idea that the determining cause of the value of things is their cost of production.

In the lecture course of 1836-37 Rossi maintained that the costs of production could be broken down into three elements: wages, the amortisation of capital, and profits (ibid. p. 89). He explicitly excluded rent from the costs of production. However, the following year he noted that profit is a consequence, and not an expenditure. Abandoning his earlier formulation, he maintained that price is the outcome of labour and capitalised savings. However, while he changed his words, he did not change his argument; by capitalised saving he did not mean the simple addition of successive advances; he took account of the interest on the sums invested.

The argument that costs of production determine prices depends on two restrictive hypotheses: that markets are competitive and that means of production are mobile.

It plainly belongs to an abstract and purely rational political economy; it is as true as a law of rational mechanics. ... It supposes a state of affairs exceedingly different from the real state of affairs. ... When one states that the formula presupposes free competition, that it presupposes the entire absence of all perturbing causes, and, in particular, the complete absence of monopoly ... one has a hypothesis not one part of which can be realised. (Rossi [1837-38] 1884 t. 3: pp. 70-71)

Ricardo was well aware that his theory rested upon restrictive hypotheses. Rossi objected that Ricardo considered his theory to be more general than it really was.

Rossi rejected the idea that prices are determined by the relation of supply and demand as misleading, adopting the Ricardian argument and interpreting it as a theory of production prices, and not as a labour theory of value. He was insistent that this proposition was a part of rational political economy. If one seeks to apply this to the study of concrete problems it was necessary to keep in mind the restrictive nature of the hypotheses on which it depended.

### 3. The Theory of Distribution

When considering the distribution of the product we should start from the issue of rent. Workers and capitalists share the product obtained with the aid of land and capital and which does not involve rent. Even if, for the sake of simplicity, wages are dealt with first, and then profits, this is "one and the same question, having two aspects." (ibid. p. 281)

#### 3.1 RENT

Criticising the Ricardian theory of rent, Say noted that the worst land always returned a rent. If that is so, it is because the productive qualities of the soil are limited, securing a rental payment to the owners of the worst land. Rent is not a differential revenue. To overcome this objection, Rossi examined the notion of intensive rent. When the demand for agricultural products increased, the additional demand could be satisfied by applying capital and labour to land that was already under cultivation. Even if all land is cultivated, production can still be increased; the returns would however steadily diminish. More intensive methods of cultivation would only be adopted if the price increased. But this price covers only the cost incurred with additional capital, and does not bear upon rent.

Say considered that because all cultivated land returned a rent it was possible to break with the Ricardian theory of rent. Rossi tells us that this argument is mistaken:

Why is it of any importance that all land pays a rent? The real issue is to know if there is a rent for each portion of capital applied to the exploitation of territory, for each portion of the product derived from land. The question is to know if each portion of the agricultural product brought to market provides for the wage of the labourer, the profit of the capitalist, more in all cases, a rental payment to the landed proprietor. That is clearly not the case. ([1836-37] 1884 t. 1: p. 131)

At the time that Rossi was writing the Ricardian theory of rent was treated as the most characteristic part of his work (Kubo 2013: p. 1). Few French economists endorsed the idea; worse, they seem not to have understood it. Rossi therefore marked himself out quite clearly from this reception.

Malthus argued that the prime cause of rent is the fertility of land (1815: p. 13). Ricardo rejected this argument ([1817] 1951: p. 402). Here Rossi took up the argument that Malthus had made:

The rate of profit depends on two circumstances: 1. on the productive power of the land in absolute terms ...; 2. on the power of the land in question ... in comparison with other land. ([1837-38] 1884 t. 3: p. 104)

Since land which was entirely infertile could not give rise to rent, he claimed that one

could argue that land produced a rent because of its absolute fertility. In a rather less ambiguous way he stated that the effect of technical progress proved his point. The example of sugar beet showed that every discovery that improved the fertility of land also increased its rent. But he did not go so far as to establish that this result would necessarily be the outcome.

### 3.2 WAGES AND PROFIT

Ricardo contrasted market wages and natural wages; in the same way Rossi contrasted *salaire courant* to *salaire nécessaire*, the latter being defined as the minimum wage that would allow the worker "to live according to his condition, and moreover, leave him a man" (ibid.: p. 150). For rather different reasons he conceded that wages fluctuated. Ricardo referred to habit and custom. Rossi laid emphasis on the fact that the worker was not a means of production like any other:

Enjoying his freedom, he either works or does not work, he works with greater or less intelligence, care, enthusiasm, and devotion; he engages himself for a longer or a shorter period; he argues over the price of his work; he gets married, or remains single; he eats more or less, according as he is prudent or imprudent, economical or wasteful. ([1844] 1857 t. 1 p. 285)

The going wage depends upon the supply and demand for labour, and the price of the commodities that workers use. But to give this formulation meaning it was necessary to explain what determined supply and demand. Like Ricardo, for the first Rossi relied on the law of population. But on what did demand depend? Ricardo wrote that it depended on the gross product of the nation ([1821] 1951: p. 390). Rossi referred to wealth and, like Ricardo, to revenue; but he conceded that these propositions were not strictly exact.

How did the introduction of machinery affect the demand for labour? Ricardo argued that the use of machinery reduced it. Rossi thought that this conclusion was beyond criticism ([1837-38] 1884 t. 1: p. 196). The problem was to know whether this reduction was lasting or transitory. Like Ricardo, Rossi thought that in the long run employment would increase: high profits and low prices for products increased the capacity for capitalists to save. One could only hope that the accumulation of capital would become faster, prompting a higher level of employment. The analyses of Ricardo and Rossi appear to be similar on this point.

However, Rossi maintained that while Ricardo's argument was correct and rational, it have hardly any practical application. What is the difference between them? Rossi regarded the initial fall in employment to be so obvious that he did not examine it. No doubt he was only thinking of a reduction which could be observed where machines directly

replaced labour. But for Ricardo there was a secondary effect: the consumption of workers in this industry fell, bringing about a contraction in the activity of those sectors producing wage goods. Thus Rossi underestimated the initial fall in the demand for labour.

Rossi thought that profits depended on three factors: the condition of productive forces, the relationship between capital and the population, and the conditions of production of workers' means of existence. On this basis he developed a very classical form of dynamic analysis. Rossi observed to his students that "There has nearly always been an era in societies when capital underwent a major expansion" - "What then happened?" (ibid.: p. 341) the volume of goods increased, and prices fell. Real salaries rose, prompting an increase in the size of the population. To feed them new lands had to be taken into cultivation, or make use of more intensive farming techniques. The cost of the most necessary commodities increased, and real wages fell. "If, as soon as the relationship between wages and capital settles, population ... begins to increase too quickly, there is no human power that can bring about an efficacious remedy to this state of affairs." (ibid.: p. 353) It is only foresight that enables men to begin to better their lot.

There is however one problem: the interpretation of the notion of real wage and of the nature of the relationship between wages and profits. Senior maintained that Ricardo thought that wages were high or low according to the part they had in the product. He also argued that when Ricardo wrote that anything that increased wages diminished profits, he meant to say that anything that increased the share of wages diminished that of profits. The inverse relationship between wages and profits would be a simple truism. Unfortunately, Rossi accepted Senior's interpretation ([1837-38] 1884 t. 3: p. 136). He forgot that Ricardo expressed wages as an invariable standard of value. Every rise in the rate of wages would thus imply a fall in the rate of profit. Rossi did not discuss this problem; he simply ignored it.

### Conclusion

Cherbuliez wrote that the real merit of Rossi was to have exposed "the doctrines of the English school, of Ricardo especially and also of Malthus, who seem to have favoured the same teachers." (1867: p. 496) He added that "the small alternations, the innovations in principle or detail that he sought to introduce here... were of no great importance, and are in general of doubtful validity." This judgement is right, but too severe.

It is right that Rossi, when studying the formation of prices and the distribution of revenue, drew on the analyses that Ricardo had developed. Breaking with the idea that prices are formed by the relation of supply and demand, he argued that they were determined by production costs. Cherbuliez considered the lectures given by Rossi in 1837-38 on the distribution of revenue to be a model of the genre. Here one found a faithful



exposition of the Ricardian theory of rent. This part of Ricardo's work had been met by French economists with a considerable number of faulty interpretations. They remained misunderstood. The impact of Rossi here cannot be denied.

The innovations made by Rossi are not, as Cherbuliez would have us believe, all of limited importance. Among the issues with which we have here dealt, three deserve emphasis. By contrasting pure and applied theory, and arguing for the need to develop a rational political economy, Rossi showed that there was no point in criticising the abstract nature of Ricardian theory. By proposing a new interpretation of the opposition between use value and exchange value he gave the idea of use value a place that it had not before in the Smithian tradition. By emphasising that labour is not a commodity like any other because since the worker is free, he suggested that its price was not determined in the same way as the prices of other goods were. He went hardly any further than this; but at the very least, he put forward a point of departure.

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