Classical Political Econ. Malthus & Say

Economic thought of the early 19^{th} century was dominated by the historical circumstance of Western Europe, particularly England and France. Economic depression followed the Napoleonic wars. Peace time conditions and contraction revived debate surrounding the corn laws which sought to keep grain prices stable and high enough to support landlord rents and lifestyles. The emerging capitalist class, aware of the relationship between food prices and wage rates, began to seek repeal of the corn laws. Thomas Malthus and David Ricardo, while close friends, emerged as intellectual adversaries on the issue of free trade in England.

Another hotly debated subject of the time was on the possibility of human progress toward "perfectibility" and "happiness." Goodwin, a leading intellectual of the day, supported a more egalitarian distribution, arguing that it would provide for material means for survival while allowing time for leisure that would facilitate the intellectual moral improvement to establish perfection and happiness on earth. Condorcet had a similar vision, but placed greater emphasis on the cumulative character of knowledge to offset concerns from a growing population.

Malthus lived during the Industrial Revolution, a transformation which was only in its embryonic stages when Smith wrote *The Wealth of Nations*. The revolutionary times, in both industry and politics, that followed Smith saw improved methods of production and transportation, new forms of business organization, expanded banking and credit facilities, and the emergence of the factory system. Moreover, the growing urban population was being displaced by technology and recurrent crises contributed to periodic commodity gluts.

The question of free trade and avoidance of commodity gluts was also being considered in France. J.B. Say, like the Physiocrats, recognized that problems may arise if the circular flow of the economy is interrupted. However, unlike the Physiocrats, Say did not believe that prosperity relied on directing consumption towards agriculture. For Say, it was production not consumption which underlined prosperity. Says *Treaty* became central in the discussion of the relationship between saving, investment, and prosperity; the *Treaty* also presented a challenge to Smith's focus on labor as a determinant of value and instead posited that utility determined value.

Utilitarianism and Diminishing returns

James Mill and Jeremiah Bentham pioneered Utilitarianism. From which the utility theory of value emerged and would eventually supersede the labor theory of value that was central to Smith's analysis of prices. Utilitarian's considered human action to be the result of sense experience, not of reason. Reinterpreting Hume's hedonism provided a foundation for an ethical system; the application of this system required "felicific calculus." If, for a given action, the sum of positive pleasures outweighed the sum of negative pleasures or pains, the person would take the action in pursuit of their own self-interest.

If pleasure and pain can be measured and if all people's experiences are comparable so that they can be weighted and summed into a social welfare function, then felicific calculus can be extended to society as a whole. From this conception of social utility, Bentham concluded that education and legislation are integral to promote the greatest happiness for the greatest number. The utilitarian position favored maintaining the existing social structure and relying upon the principle of utility to improve human society.

Implicit in the model of population developed by Malthus in his *Essay* is the concept of diminishing returns to land. The quantity of land is fixed, increasing food production requires increased application of labor at the margin where returns are proportionately less. The productive capacity of Earth does not expand with a growing population and this constraint would serve as the ultimate check on population.

Malthus on Moral Restrain and the Tendency towards Subsistence Wages

Population, Malthus posited, has a tendency to grow faster than the ability to produce food. The "passion between sexes" does not diminish like the returns on land.

The implication of Malthus' conclusion is the urgency of moral restraint, which is understood to mean postponement of marriage and sexual abstinence. He continued, stating that education is the key to avoiding instant gratification until the person is able to support a family. The system of private property encourages personal responsibility and rewards those who are ambitious and prudent. Social safety nets which provision for the poor, according to Malthus, encourages indolence, allowing the weak to persist instead of perish.

Malthus and his contemporaries theorized that the wage rate is determined by the proportion of the population employed and the size of the wage fund. A rising population combined with diminishing returns to land and rising food prices, implies that the real wage will fall towards subsistence. There are two manners to combat the tendency towards subsistence.

1. Moral restraint to check population growth.
2. Increasing capital intensity of production.

In regard to the latter. The wage fund was assumed to be a constant proportion of the capitalist's stock. It follows that any rise in employment, *ceteris paribus,* will lower real wages. Increasing the wage fund, through increased accumulation by the capitalist, would counteract the tendency to subsistence. Rising wage rates, were associated by Malthus, with high capital-to-labor ratios and falling wage rates with low capital-to-labor ratios. This conclusion reached by Malthus continues to be accepted today, albeit for different reasons. Contemporary analysis posits that a high capital-to-labor ratio increases labors marginal productivity and thus their claim to income.

Rent, the Corn Laws, and commodity gluts

After the Napoleonic wars, debate over the Corn Laws was revived in England. Malthus addressed the question of whether rent is a monopoly income as implied by Smith and the Physiocrats. Malthus put forward three reasons for the appearance of rent.

1. Land produces a surplus. Thus, rent is a gift from providence, not monopolistic scarcity.
2. Rising food production, according to Malthus, spurs population growth. The co-movement of food supply and population drives the price above cost of production, generating rent as a claim on the surplus.
3. Land is heterogenous in regards to fertility. Thus, population growth combined with diminishing returns will drive up the costs of production on the newly cultivated, inferior land. A uniform price will allow the landlords of the more fertile land to receive rent.

Rent as a differential surplus

Malthus, Ricardo, and the classical school maintained a theory of rent that is compatible with contemporary economics. Essentially, the classical theory of rent is a marginal productivity theory.

The table presented here contains a numerical example that clarifies Malthus's theory of rent. Unlike Turgot, who allowed capital and land to vary, Malthus applied variable amounts of labor and capital to a fixed quantity of heterogenous land. The plots of land A through D are of equal area, but of declining quality. Increasing labor and capital increases output, but at a diminishing rate

Inputs of labour and capital	*Total output of wheat*				*Marginal output of wheat*			
	A	*B*	*C*	*D*	*A*	*B*	*C*	*D*
0	0	0	0	0	–	–	–	–
1	400	300	200	100	400	300	200	100
2	600	475	300	–	200	175	100	–
3	750	575	–	–	150	100	–	–
4	850	–	–	–	100	–	–	–

Assume that each dose of labor and capital costs $100 and wheat fetches a market price of $1. The D plot of land only warrants 1 unit of labor and capital; marginal cost equals marginal value product which is derived by the product of marginal physical product and market price of output. Competition ensures uniform price such that plots A – C yield a surplus of $450, $275, and $100, respectively. Plot D is a no rent land as the value of the output equals the value of the input.

Following the same logic, plots A- C should be cultivated until the value of the marginal product equals marginal cost. At the margin, labor and capital receive the value of the marginal product while the difference between total revenue and factor payments constitutes the surplus called rent.

Following this logic we conclude that rent is an effect, not a cause of value.

Commodity gluts

With the conclusion of the Napoleonic wars, both Britain and France experienced severe economic disruption. These experiences motivated Sismondi to question self-equilibrating characters of a capitalist system. Capitalism brought with it massive increases in productive power. The increase in output combined with labor receiving a subsistence wage raises a question: how to absorb of the output. This problem would be exacerbated by further technological advance. However, the conclusion reached by Sismondi was challenged by another French economist, J.B. Say.

Say argues that goods are produced to be exchanged for other goods; every act of production simultaneously creates a market for the commodity by making the monetary means of purchasing it available through payment to those engaged in its production. In essence, Say's law states that aggregate effective demand is the equivalent of aggregate supply. From this law it follows that gluts are impossible. In order to arrive at this conclusion, Say assumes a barter economy.

Malthus takes a slightly different stance on the nature and source of aggregate demand, anticipating a forceful argument to be developed by Keynes in the following century. He argued that in an economy with landowners and laborers, it is not only possible, but likely that effective demand will fall short of supply. Consider a case of rising profits. Capitalists will respond by increasing investment. Increasing accumulation requires greater savings as expenditures on non-capital goods must decline. Increasing the stock raises future output which only exacerbates the problem of maintaining sufficient effective demand. Addressing the problem of insufficient effective demand requires supplementing labors expenditures. The trick was to discover a source of expenditures that did not raise the cost of production so as to be able to maintain the rate of profit and hence, employment. The solution lies in rent, which, recall, was an effect of value, not a source. From this reasoning, Malthus supported the corn laws that sought to maintain rents which were considered an ideal source of unproductive consumption. Without a body of unproductive consumers, accumulation will generate undesirable effects— gluts and capital redundancy.

Progress and structure of the economy

Having considered Malthus's view on unproductive consumption, it should be apparent that the structure of the economy matters. He argued in favor of food independence, restricting importation of grain would support rent and serve as an important source for maintaining effective demand.

Concluding thoughts

The significance of one's contributions to political economy arises from a variety of ways.

1. Influence subsequent research in the discipline.
2. Influence policy.
3. Inspire research in other fields.

When we look back at Malthus, his research hit the mark on all three measures. In the early days of political economy when Malthus was writing, thinkers were only starting to discover what would come to be known as the laws of classical economics. And Malthus was a significant contributor to their development in terms of both content and methodology.

Utilizing the principle of effective demand, Malthus concluded that insufficient expenditures would create a glut and thus, unemployment. Malthus's conclusion contrasted greatly with that of Say and would not come to be fully appreciated until restated by Keynes in the 1930's.