

Section 5. Malthus: Costs cannot buy value⁷⁸

Principle of Population: needed food supply vs production

In his 1798 *Essay on the Principle of Population*, Thomas Malthus (1776 – 1834) developed the idea of mankind being a predator, while food (grains, plants, animals) was the prey. Mankind can multiply faster than food and, hence, its growth will be unavoidably limited, or as Malthus says “checked”, by the food supply. This gap is growing. An “arithmetical” increase of food supplies (prey) will be less and less sufficient to the increased number of humans, who grow “geometrically”.⁷⁹ While this mechanism is rabiate in principle, its practical operation is less so. Significant work is undertaken early and invisibly by “preventive checks”. People marry late, have fewer children, or have no children at all. Emigration is another undramatic way to do the job. Some “positive checks”, though, materialize in a form that is so brutal as to correspond to the unforgiving character of the law: abortion, infant mortality, and deaths due to malnutrition, infections, unhealthy housing, etc. Wars, accidents, natural catastrophes, and epidemics, etc. are also factual unpleasant “checks” to populations, but they arise out of other backgrounds without, mostly, having the goal in mind. In fact, they may even sometimes pave the way to a transitorily more abundant state of nourishment.

Thus, the Malthusian mechanism operates via men finding no food and dying of hunger or illness only in its most extreme form; more often, humans are simple not being procreated or born or disappear from places for other reasons. Malthus’ population law, hence, neither implies that there will be hunger revolts and hundred thousand or millions of desperate adults robbing and killing each other for food or even cannibalism,⁸⁰ nor does it “apologetically” justify such horrors.

“Checks”, though, there will be, and in an unequal society, like ours, they will also be unequally distributed. They will not fall on the powerful and wealthy, but on the weak and poor. This is true for the sacrifice of parents to abstain from having children, thereby affecting the poor with more providence, and for “checks” on humans born who will suffer hunger, become ill, and may die early and who may sometimes be said to have less providence. Belief in God and in a better life after death always enabled religious thinkers to face and to endure sad news about life on earth, and

78 A fall in price can sink the value of a product below the cost of production. See *Malthus* (1820) chapter 7 sect. 3, page 355

79 “...I say that the power of population is indefinitely greater than the power in the earth to produce subsistence for men. Population, when unchecked, increases in a geometrical ratio. Subsistence increases only in an arithmetical ratio.” (*Malthus* (1798) page 71).

80 While human history sadly also went through such bad periods (see for instance *Davis*, The reign of Li-Tsung, page 881, 902), it will normally not get that far.

so too could Malthus, the clergy man, live with his concept's corollaries. If there are 17 chairs and 20 want to sit, then it would be nonsensical to embark on a charitable campaign in favor of those who have to stand, given that every success at such an attempt would only produce a new have not, a new patient for the next charitable campaign – this is a dumb Sisyphus-activity. A social security, inspired by lofty philanthropic motives, was nonsensical, given the objective shortage of food supply in Malthus' reasoning; it could only redistribute the evil, change the victims, but never remedy the problem. Only the course of the "fault line" may be redrawn, in favor of some and to the disadvantage of others. However, on the bad side of this line, and in the aggregate, there would always be poverty, sickness, and misfortune. God, obviously, wanted these bad destinies to happen.

Principles of political economy: potential and real production

Twenty-two years later, in his *Principles of Political economy* of 1820, Malthus again used the idea that two growth processes, which some pre-ordained necessity required to be complementary, are actually not. Now, it is not biological growth versus the growth of social production, but the social or, in fact, the economic is on both sides. The lack of complementarity between two dynamics now explains the limited food supply that already went into his population law as one side of the problem. "In a former work", he writes, "I endeavoured to trace the causes which practically keep down the population of a country to the level of its actual supplies. It is now my object to shew what are the causes which chiefly influence these supplies, or call the powers of production forth into the shape of increasing wealth."⁸¹ He uses the distinction between the potential and the real to frame his investigation. Actual production will always be lower or at best equal to the maximum potential of production. Where it ends up matters greatly. There is, says Malthus, "scarcely any inquiry more curious, or, from its importance, more worthy of attention, than that which traces the causes which practically check the progress of wealth in different countries, and stop it, or make it proceed very slowly, while the power of production remains comparatively undiminished, or at least would furnish the means of a great and abundant increase of produce and population".⁸²

Four stimuli of supply

Malthus espouses his view on the issue in the final, eighth chapter of his *Principles of Political economy* (1. ed. 1820, 2nd. ed. 1836) "On the immediate causes of the progress of wealth". In it, he specifically examines whether the development of four factors

81 Malthus (1820) page 345.

82 Malthus (1820) page 345.

(population growth, accumulation or saving, fertility of the soil, and inventions to save labor) suffice to stimulate production up to its theoretical maximum. He shows that these factors, individually and jointly, are unable to achieve this result both in theory and by experience.

To begin with, the growth of the population has intertwined effects on both supply and on demand. Even if there is a greater number of people, the “desire of any individual to possess the necessities, conveniences and luxuries of life, however intense, will avail nothing towards their production, if there be nowhere a reciprocal demand for something which he possesses”, which would attribute value thereto and promote his economically irrelevant “physical demand” to an “effective” or “effective”⁸³ demand. As we know, only the two latter actually attribute value. However, this “reciprocal demand”, e.g., for labor, depends upon the possibility of a profitable use of this labor and “...no productive labour can ever be in demand with a view to profit unless the produce when obtained is of greater value than the labour which obtained it.” Accordingly: “A man whose only possession is his labour has, or has not, an effective demand for produce according as his labour is, or is not, in demand by those who have the disposal of produce.”⁸⁴ Hence, the economy will only be receptive to those supplies of new labor (or other goods or services) that follow a growth in population if they can be used profitably and if the bearers of labor in the increased population are able to increase demand under the same prerequisite. In fact, experience shows, says Malthus, that “the slowest progress in wealth is made where the stimulus arising from population is the greatest.”⁸⁵

Malthus’ treatment of the second factor, saving, the accumulation of capital, once again emphasizes demand. Admitting that there is “hardly a country in the four quarters of the globe, where capital is not deficient ... compared with the territory and even the number of people, and fully allowing (for)... the extreme desirableness of an increase of capital”, he still judges the relation between capital and demand as more important than the relation of capital to the territory and to the population: “...I should say where the demand for commodities was not such as to afford fair profits to the producer, and the capitalists were at a loss where and how to employ their capitals to advantage, the saving from revenue to add still more to these capitals would only tend prematurely to diminish the motive to accumulation, and still further to distress the capitalists...”⁸⁶ Rather: “The first thing wanted in both these cases of deficient capital and deficient population, is an effective demand for

83 Malthus uses both terms with no visible difference between them.

84 *Malthus* (1820) page 348.

85 *Malthus* (1820) page 350.

86 *Malthus* (1820) page 372.

commodities, that is a demand by those who are able and willing to pay an adequate price for them..."⁸⁷

For the third factor, Malthus relies on *Alexander von Humboldt's* reports on the Spanish dominions and Malthus' own observations on Ireland. He infers from them "that the fertility of soil alone is not an adequate stimulus to the continued increase of wealth"⁸⁸ Malthus quotes von Humboldt saying, with reference to the banana: "Je doute qu'il existe une autre plante sur le globe qui, sur un si petit espace de terrain, puisse produire une masse de substance nourrissante aussi considérable."⁸⁹ Similarly, "la fécondité du *thaolli* ou maïs Mexicain est au-delà de tout ce que l'on peut imaginer en Europe"⁹⁰ and von Humboldt calculates that half a hectare planted with bananas can feed 50 people, while half a hectare planted with corn can feed two people⁹¹ or that a maize harvest below 130 to 150 times the seed is considered as bad around Valladolid in Mexico.⁹² Accordingly, even in towns in which the provisions are dearer, even "the very dregs" of the people are able to earn their maintenance by only one or two days of labor in a week.⁹³ However, nowhere does this enormous large-scale facilitation, to procure food, lead to a significant increase of agricultural production or to other conveniences or luxuries, e.g., by manufacturing. Rather, the "extreme fertility" of this privileged region generally goes along with great indolence and improvidence. As von Humboldt says, "si les plaines fertiles d'Atalisco, de Cholula et de Puebla ne produisent pas des récoltes plus abondantes, la cause principale doit être cherchée dans le manque des consommateurs, et dans les entraves que les inégalités du sol opposent au commerce intérieur des grains, surtout à leur transport vers les côtes qui sont baignées par la mer des Antilles". Malthus supports this view: "...the main and immediate cause which retards ...cultivation is indeed the want of consumers, that is, the want of power to sell the produce at such a price as will at once encourage good cultivation, and enable the farmers to give the landlords something that they want, for the use of their land."⁹⁴ "Except in the neighborhood of the mines and near the great towns, the effective demand for produce is not such as to induce the great proprietors to bring their immense tracts of land properly into

87 Malthus (1820) page 372 and 341.

88 Malthus uses this identical summary twice after his treatment of the Spanish dominions and of Ireland (Malthus (1820) page 393 and 401).

89 von Humboldt (1811) tom. iii. l. iv. c. ix page 28, quoted after Malthus (1820) page 382.

90 von Humboldt (1811) tom. i. l. ii. c. v page 358, quoted after Malthus (1820) page 385.

91 von Humboldt (1811) tom. iii. l. iv. c. ix page 28, quoted after Malthus (1820) page 382.

92 von Humboldt (1811) tom. i. l. ii. c. v page 358, quoted after Malthus (1820) page 385.

93 von Humboldt (1811) tom. ii. l. ii. c. vii page 37, quoted after Malthus (1820) page 386.

94 von Humboldt (1811) tom. iii. l. iv. c. ix page 89, quoted after Malthus (1820) page 392.

cultivation...”⁹⁵ Accordingly, only sufficient foreign commerce, e.g., trade with the mother country, he notes, could “give value to the raw produce of the land.”⁹⁶

Malthus treats inventions to save labor as a possible fourth factor for the progress of wealth. He summarizes on this subject: “The presumption always is, that it [an invention to save labor, G.W.] will lead to a great extension both of wealth and value. But still we must allow that the pre-eminent advantages derived from the substitution of machinery for manual labour, depend upon the extension of the market for the commodities produced, and the increased stimulus given to consumption....”⁹⁷ In the end, Malthus finds that all four of the factors reviewed are, singly or jointly, not sufficient causes for the progress of wealth.

The requirement of a union between production and distribution

As Malthus argues in the sixth section of Chapter VIII of his *Principles of Political Economy*, a “union” only of the “powers of production”, which includes the four factors examined previously, with “means of distribution”, can help us to move actual production to its theoretical technical maximum. A certain “due proportion” is needed.⁹⁸ “Demand”, Malthus says, “... is quite as necessary to the increase of capital as the increase of capital is to demand. They mutually act upon and encourage each other, and neither of them can proceed with vigour if the other be left far behind.”⁹⁹

Three factors in particular serve as “occasioning” for an improved distribution¹⁰⁰: the *division of landed property, commerce, and unproductive consumers*. In the seventh

95 Malthus (1820) page 389.

96 Malthus (1820) page 390. Malthus attaches similar considerations to the adoption of the potato as general food of the lower classes in Ireland and to the low wages owing to the potato's cheapness, which we do not pursue (Malthus (1820) page 394 and 399 et seqs).

97 Malthus (1820) page 394 and 412 et seqs.

98 Malthus (1820) page 426.

99 Malthus (1820) page 399.

100 Malthus uses the notion of “distribution” but distribution certainly means more to him than just physical transportation or the existence of established trade channels, e.g., with wholesalers and retail traders etc. but rather “mission accomplished”, in the sense the German word “Absatz”, the French word “débit” or the uncouth English word “off-sale”. Sismondi even stressed that sales to intermediaries should not be confused with sales to ultimate consumers. If book publishers, he says, meet at the Leipzig book fare and bring each four or five dozen copies of four or five books, which they sell to each other (or barter amongst them), then relevant demand and consumption have not yet even commenced. Only if the bookstores at home find end-customers who are willing to make a sacrifice of a payment, this constitutes the needed demand. (Sismondi (1827) page 380–382). This may require a qualification. If the books are paid for, or bartered into valuable other books, hence, books in good demand, then their producers have in fact already realized the value-in-exchange that they were looking for.

through ninth sections of Chapter VIII, Malthus shows how they increase the exchangeable value of the produce. Malthus, in the nominalist catholic Salamanca or natural law traditions, considers exchangeable value as ascribed by people with purchase power, distribution, and value move together and become almost the same.¹⁰¹ Whether a commodity or service has a “value” (physiocrats said “valeur vénale”) is hardly distinguishable from it being properly “distributed” or from there being effectual demand for it. Value being ascribed to commodities in this way vindicates the entrepreneur’s investment. The economy is in “proportion” (we may say that the economic machine is in “sync”), if its products reach a customer who pays a price that is sufficiently greater than the “costs” and allows for an appropriate profit for the entrepreneur. The more products enjoy this favorable situation, the more the social production will approach its maximum.¹⁰² This is, however, mostly not so, and “this deficiency must have arisen from the want of an adequate stimulus to continued production”.¹⁰³

When Malthus talks about the importance of demand, e.g., by saying: “The first thing wanted... is an effective demand for commodities, that is, a demand by those who are able and willing to pay an adequate price for them”,¹⁰⁴ he never allows for any doubt not only concerning the costs of production, but also about the entrepreneur’s profit, which must both be covered by the sales price. A “commodity will not be produced, unless the estimation in which it is held by the society or its intrinsic value in exchange be such, as not only to replace all the advances of labour and other articles which have been made for its attainment, but likewise to pay the usual profits upon those advances”.¹⁰⁵

If the produce were sellable only at the price of its costs, then that would leave the central motive of the profit economy frustrated. Hence, even if such unprofitable sales may sometimes occur – as it may be a lesser evil to recuperate (at least) the costs of already existing products than to see them decay in storehouses –, certainly such production will be discontinued. Costs cannot buy value; costs are less than value. Only costs plus an amount equal to profit can buy the produce in a well-oiled profit economy. Three factors may help to achieve this: division of landed property,

101 See already on page 40.

102 Even if the “geometrical” growth of the population will nevertheless affect this maximum, it will still be too little for the growing population and poverty and depravation will remain or re-emerge because of the Malthusian population theory.

103 *Malthus* (1820) page 347.

104 *Malthus* (1820) page 372.

105 *Malthus* (1820) page 341.

commerce, and unproductive consumers, but whether they suffice remains indeterminate. Malthus spells out quite clearly the idea here that the profit motive itself poses the main problem for the closure of circuits in capitalism and points to “unproductive consumers” as *ultima ratio*. Malthus, like Sismondi and others before him, looks towards prosthetics to close the gap.

Section 6. What Say said and Ricardo's Law of Say

Malthus was a close personal friend of Ricardo. For the sake of faster progress in economic theory, it might have been better if the two had become enemies and Malthus would then have been less moderate and polite in his criticism of Ricardo.

Ricardo and Say

The years following the Napoleonic Wars had disproven Smith's earlier optimism (from fifty years previously) concerning a lasting sufficient demand being available, which would buy the capitalist firms' output. David Ricardo (1772 – 1823) was fully aware of the problem and was in constant discussions with his friend Malthus and others that occasionally included Sismondi, about the reasons why sales markets rejected the absorption of the produce,¹⁰⁶ which undermined confidence that future production would be sellable, and led to the underemployment of equipment and workers. The problem that Quesnay had axiomatically solved, and which Smith had ignored, Ricardo, though, felt could be explained with special and transitory circumstances. Capitalism, he felt, had no general problem. When he needed a formula to express his view, he began to generously refer to a formula of a European disciple of his, *Jean-Baptiste Say* (1776 – 1832). Say, according to Ricardo, was “not only the first, or amongst the first, of continental writers who justly appreciated and applied the principles of Smith...” (meaning the teaching of Ricardo himself) and did “more than all other continental writers together, to recommend the principles... to the nations of Europe”, but, Ricardo went on, even “succeeded in placing the science in a more logical, and more instructive order and enriched it by several discussions, original, accurate, and profound.”¹⁰⁷ One of these “enrichments” were a few sentences that Ricardo himself elevated to the “Law of Say” or “Say's Law”. It provided a new, more

106 One year before Ricardo's death, in 1822, he visited Sismondi in Geneva. Sismondi reports that the two began their two or three meetings by agreeing that “all sorts of industry, agriculture and manufacture, complain, one alike the other, in all European countries of a congestion of the markets and the impossibility to sell or to only sell at a loss”. (*Sismondi* (1827) page 411, translation by author).

107 Preface page 6. Ricardo leaves not doubt who is the master and who the disciple.