

After Smith had died in 1790, the economic situation in the UK and in Europe changed significantly. 15 years of Napoleonic wars incited a build-up of production, especially in the UK and France, and when the armament demand discontinued, in the absence of some kind of Marshall plan and of other expansion options, capacities were far too large for peace production. Ricardo, Say, Sismondi, and Malthus, accordingly, voiced unanimous complaints about a great “engorgement” of markets. The impression of these post-war years, a good decade, must have been similarly important for economic thinking of the time as the Great Depression would be 110 years later. It contributed, as in the 20th century, to shape two camps in macroeconomics, one camp, Ricardo and Mill in particular, remained convinced that missing employment-generating spending still did not have to be a systematic concern, and an opposing camp, Proudhon, Sismondi and Malthus in particular, that took the opposite view. The camps developed in parallel and argued against each other. The camp of Proudhon, Sismondi, and Malthus, in essence, aimed to set free the analytical potential of Quesnay’s circuit analysis by giving up the catechism-like numeric preordainment that circuit would close and to consider whether or not circuits would close as a conscient contingent problem. The other camp, Ricardo and Mill, too, could no longer sidestep the question of where sufficient demand would come from, as Smith had. They tackled it by throwing in something for economists and the public to chew on; Ricardo invented the “Law of Say”.

#### Section 4. Proudhon and Sismondi: Producers cannot buy their produce

But we first turn to Proudhon and Sismondi. In the *Grundrisse*, Marx labeled *Pierre Joseph Proudhon* as somebody “who certainly hears the bells ringing but never knows where”. Marx therewith reacted to Proudhon explaining overproduction with the fact “that the worker cannot buy back his product”.<sup>58</sup> We do not pursue Proudhon, Robert Owen, or other early utopian socialists any further, but will instead turn to *Jean Charles L. Simonde de Sismondi* (1773–1842), a man of higher intellectual caliber. Like Adam Smith, he was of deep historic knowledge and developed his economic ideas in a concise and scientific way. The first edition of his *Nouveaux Principes*

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a feedback from investment to demand and that “...a capital employed in home trade...puts into motion a greater quantity of domestic industry, and gives revenue and employment to a greater number of the inhabitants of the country...” (*Smith* (1776) page 399). Marx wrote much to the point about Smith: “Die Widersprüche A. Smith’s haben das Bedeutende, dass sie Probleme enthalten, die er zwar nicht löst, aber dadurch ausspricht, dass er sich widerspricht”. *Marx*, *Theorien über den Mehrwert*, MEW 26.1, page 121. E.g. Smith’s theory of value oscillates between a labor theory of value and something else.

58 *Marx*, *Grundrisse*, MEW 42, page 338.

*d'Économie politique ou de la Richesse dans ses Rapports avec la Population* was published in 1819<sup>59</sup>, one year before Malthus' *Principles of Political Economy*. Both authors have great similarities in important regards and saw themselves as jointly battling against Ricardo and his disciples. Sismondi wrote three articles that were republished in the second edition of his *Nouveaux Principes* of 1827 and that he collectively entitled "Clarifications concerning the balance of consumptions with productions".<sup>60</sup> These articles and chapter VI of volume I of the *Nouveaux Principes* contain the essence of Sismondi's contribution to the question of employment-generating spending, which he called "the fundamental question of political economy".<sup>61</sup>

In his first article,<sup>62</sup> he states a "universal congestion" of the markets after the end of the Napoleonic wars and explains it by the fact that only revenue may or may not put "everybody into the position to buy his part of the annual produce" as "the revenue of all is not the same thing as the produce of the work of all". It is "possible that the produce increases and that the revenue is diminished, that the stores fill up, but that purses empty...".<sup>63</sup> More generally, Sismondi reproaches Ricardo and his disciples in the second article for falsely believing that by "creating objects of exchange one creates exchanges".<sup>64</sup> Against McCulloch's statement that "the production of one kind of a good constitutes the demand for another"<sup>65</sup> he contends that the price of a commodity is influenced by two elements: "He who wants to dispose of a product certainly calculates what it costs him; but he who wants to buy the product...

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59 Sismondi (1827).

60 Sismondi (1827) page 369 et seq

61 Sismondi (1827) page 439 "...la question fondamentale de l'économie politique est ... la balance de la consommation avec la production...".

62 Originally published under the title "Examen de cette question: Le pouvoir de consommer s'accroît-il toujours dans la société avec le pouvoir de produire?" in "Annales de jurisprudence de docteur Rossi" of 1820. The article critized an anomimous article in the *Edinburg Review* (volume XXXII, 1819) by, as Sismondi later learned, John Ramsey McCulloch (*Sismondi* (1827) page 376). McCulloch became a leader of the Ricardo school after Ricardo's death. In Schumpeter's words, he was "roughly handled", did not add "anything substantial" and the "touches" that he did add were of "doubtful value" (*Schumpeter* (1954) page 477, 478).

63 *Sismondi* (1827) page 375 (translation by author). The original reads: "Je l'ai expliqué par une théorie, que je crois nouvelle, sur la nature du revenue, qui met chacun en état d'acheter sa part du produit annuel. J'ai cherché à faire voire comme le revenu de tous n'est pas la même chose que le produit du travail de tous; en sorte qu'il est possible que le produit s'accroisse, et que le revenu se diminue, que les magasins se remplissent, et que le bourses se vident...".

64 "Aux yieux de MM. Say et Ricardo, en créant des objets à échanger on crée des échanges...". (*Sismondi* (1827) page 414).

65 Retranslated by the author into English from French. Sismondi's French translation reads: "La production d'une espèce de bien constitue la demande de l'autre". (*Sismondi* (1827) page 378). McCulloch's quote already states "Ricardo's Law of Say". "Une demande" would be correct, "la demande" ist overstretched.

decides by two motives, which do not have any relationship with the costs of production, i.e., his need first and then his means to pay. The combination of these two elements and their proportion with the product built a demand that may be stronger or weaker than the price of production.” There will be no demand in either case if a prospective counter-party has no desire for the product or if it cannot or does not want to make the “sacrifice” of the money payment.<sup>66</sup> We are in full agreement with Sismondi here.

Sismondi attacks McCulloch and Ricardo for creating a “hypothetical world” that only makes their argument appear to work. McCulloch, Sismondi claims, “supposes work without profit, a reproduction, which just only replaces the consumption of workers”. He “supposes masters and workers, but he does not leave anything left for the masters”, but, “if those do not have any part, do not have any profit, they can’t either have any interest to make the work continue... This false supposition affects the base of the whole reasoning. In the moment we seek what will become the surplus of the production of the workers over their consumption, one cannot make abstraction of this surplus, which forms the necessary profit of the work and the necessary part of the masters.”<sup>67</sup> This is the deepest thought in Sismondi’s argument. The motivational structure in the economic system, which is superimposed over goods procurement in a profit economy, requires a reward, the profit, for those – the “maîtres” – who invest capital and keep the system chugging along. However, that profit must come from somewhere – and it can only come from selling produce that the workers alone cannot buy. Their salaries reflect only a component of the produce and cannot be high enough to buy the whole produce. For completeness, outlays to other capitalists must be included. Thus, it must be left to the capitalist to buy the produce

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66 Sismondi (1827) page 379, as translated by the author. The original reads: “Celui qui veut se défaire d'un produit fait bien son compte d'après ce qu'il a coûté; mais celui qui veut acheter ce produit, celui qui le *demande*, se détermine par deux motifs qui n'ont aucune relation avec les frais de production, savoir, son besoin d'abord, puis son moyen de payer. La combinaison de ces deux éléments et leur proportion avec le produit composent une demande qui peut être ou plus forte ou plus faible que le prix de production.” “Il n'y a non plus aucune demande quand celui qui desire la chose produite n'a aucun superflu a donner en échange, ou ne veut pas faire, pour l'avoir, le sacrifice qu'on exige de lui” (italics in the original). Sismondi uses the word “sacrifice” several times in this context, e.g. again on page 381 and 385.

67 The French original reads: “Et, d'abord l'auteur suppose un travail sans bénéfice, une reproduction qui ne fait que remplacer tout juste la consommation *des ouvriers*...il suppose des maîtres et des ouvriers, mais il ne laisse rien pour la part des maîtres. Cependant, si ceux-ci n'ont aucune part, n'ont aucun bénéfice, ils ne peuvent avoir non plus aucun intérêt à faire continuer le travail... Cette fausse supposition porte sur la base de tout le raisonnement. Au moment où nous cherchons ce qui devient le surplus de la production des ouvriers, il ne faut pas faire l'abstraction de ce surplus qui forme le bénéfice nécessaire du travail et la part nécessaire du maître.” (Sismondi (1827) page 384).

representing an add-up beyond their outlays; the surplus-part of commodities must be bought by the masters to provide the masters with a surplus in money.

These purchases alone (necessary for a profit and to motivate the system to go on) cannot be explained as easily as the purchases by the workers. Quite obviously, Sismondi's reasoning here foreshadows the reasoning of others that followed. Demand, esoteric, effective, and effectual, for the  $v$ -part and  $c$ -part of the produce (or the part for which recovery of  $M$  will be sought) can be explained by workers' demand (the  $v$ -component) and suppliers' demand (the  $c$ -component), but the expected excess  $s$  ( $= M' - M$ ), which alone allows profit, cannot be explained that way. Sismondi debunks insufficient demand of "masters", i.e., insufficient spending of  $M' - M$ , as the problem and tries to explain it mostly from value-in-use-related aspects. However, he does not yet use a distinction between the productive and the wealth economy and does not discover the hunt for profit in the wealth economy as the main cause for deficient circuit closure in the productive economy.

In the second article,<sup>68</sup> Sismondi further addresses the views of Say and Ricardo that "by creating objects for exchange, one creates exchanges".<sup>69</sup> In essence, he gives two arguments for why their views are wrong. First, the "created objects for exchange" (on the other side of the markets, the produce of Alter, which Say and Ricardo expect to buy the products of Ego) may, unfortunately, not be attributed with sufficient value-in-use and value-in-exchange by Ego. It depends on value-attribution by Ego how much Alter can buy with his products and the production of Alter may create less purchase power than for what Alter would be happy to sell. However, if Ego does not buy the whole produce from Alter at a price, which is profitable and, thus, acceptable for Alter, Alter's  $M'$ , then Alter will also be unable to buy Ego's produce at Ego's  $M'$ . In other words: Because Alter does not attribute enough value-in-exchange to Ego's produce to reach Ego's  $M'$ , which only validates Ego's investment, Ego will be unable to exchange his produce for Alter's  $M'$ , which only validates Alter's investment. Economists who hold the power of market adjustments very highly may contend that Alter will simply take the loss, sell at a lower price, and go on to new investments. It is true that the profit principle will induce Alter to further investments (albeit possibly more carefully and more in the sterile economy). Yet, the contention oversees that Ego is already infected and that the damage has already happened: Alter's bad investment has compromised the chances for (even a possibly sounder) investment of Ego and already initiated a depressing wave in the economy (other depressing moments will arise from other aspects that we will consider later). Second,

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68 Originally "Sur la balance des consommations avec les productions", *Revue encyclopédique*, Mai 1824, tome XXII.

69 *Sismondi* (1827) page 414, translated by the author. The transformation of Say's Law of Say into Ricardo's Law of Say is now more explicit.

Sismondi reiterates his point that if a production by Alter happily enjoys the ascription of its target value-in-exchange  $M'$  by some Egos, then that may not be the Egos with the money. The money  $M'$  must be in the hands of the Ego who has the “needs”; needs must be “united with means of exchange”. Accordingly, it does not “suffice to only create these means of exchange” but that they must “also pass into the hands of those who (have) the desires or needs...”. Sismondi, in particular, points to a problem concerning the procurement of means of exchange for the most reliable of all would-be-consumers: “Rather it often happened that the means of exchange were increased in the society while the demand for labor or the wages were diminished; accordingly the desires and needs of one part of the population could not be satisfied, and the consumption also diminished.”<sup>70</sup> If we stipulate that “esoteric” demand cannot attribute value-in-exchange, then the second argument obviously merges with the first one. The crucial point here is the circular dependency.

Sismondi also develops the idea of a circular dependency at the level of a national economy in Chapter VI of volume I of his *Nouveaux Principes*. This resembles Quesnay’s tableau, but Sismondi does not use fixed classes, only functional roles. In the positive case, “a prompt and complete consumption determines always a superior reproduction”<sup>71</sup> and the “circle can extend itself and can change to a spiral”;<sup>72</sup> hence, growth occurs. In the negative case, “riches that have not found their destination [to be purchased by the market, G.W.] stop the reproduction of an equal quantity which it must replace”.<sup>73</sup> Sismondi compares this to a lonely individual, who stops working once he has the food, clothing, and housing he needs.<sup>74</sup> “Society is exactly like this man...it does not want food any more if there is nobody to eat it...”. Yet, he knows that things are worse in a profit economy: “...the limits that consumption sets to the reproduction makes themselves even much more felt in society than in a lonely man: even if society may count a great number of individuals malnourished, poorly dressed and poorly housed, ... it only can buy with its revenue”.<sup>75</sup> The immediate connection, which existed in a single Robinson Crusoe, and of which we are reminded by Sismondi’s example, is cut through. Hunger, the need for clothing, and for housing are no longer immediately felt reasons, at the societal level, to produce more. Rather,

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70 Sismondi (1827) page 409, quotes translated by the author.

71 Sismondi (1827) page 113, translated by the author.

72 Sismondi (1827) page 120, translated by the author.

73 Sismondi (1827) page 177, translated by the author.

74 Sismondi (1827) page 177.

75 Sismondi (1827) page 117. The original reads: “Mais la borne que la consommation met à la reproduction se fait encore bien plus sentir dans la société que dans l’individu isolé; alors même que la société compte un très-grand nombre d’individus mal nourris, mal vêtus, mal logés, elle ne veut que ce qu’elle peut acheter; et comme nous l’avons vu, elle ne peut acheter que avec son revenu.”

a new system of incentives is established between value-in-use-needs and production. Production is now only moved by profit expectations; hence, expectations of sufficient employment-generating spending – not by hunger or the need for either clothing or shelter. Production decisions are only made with a view to people being able to pay for them, not with a view to people in need of products. Therefore, it is particularly important whether non-owners (or only-owners-of-working-capacity) can manage to procure the means of exchange. They can only consume if they draw a revenue; this, however, they can only do if wealth owners use their capital for investments and buy their labor by paying salaries to them in order to generate profits.<sup>76</sup>

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In summary, we have a market or buyer-determined theory of value in Sismondi (attribution of value-in-exchange based on utilities and value-in-use), and the insight that prospective value-attributers need sufficient value-in-exchange or money to make purchases. Sismondi explicitly pronounces what was implicit in Quesnay's work. Quesnay's axiomatic machine solved the problem, albeit without talking about it explicitly, by moving sufficient value-in-exchange to the place where it was needed when it was needed. Sismondi (and Proudhon, etc.) hit the nail on the head of what happens when Quesnay's axioms stop working. The idea comes to the fore that capitalism's profit motive could turn itself against the peaceful closure of the circuits in Quesnay's tableau. In this way, of course, the profit motive turns against one condition of its success and against itself and an antinomy opens up. Sismondi already sees that this antinomy will drive its way into prosthetics and into seeking complementary demand from abroad: "Toutes les grandes demandes sont venues de L'Amérique espagnole, ou aucun obstacle n'empêche point plus introduction des marchandises Européennes, où la guerre, allumée dans toutes les provinces, consomme beaucoup et produit peu, où de fortes passions populaires, excitées en même temps, font consacrer les capitaux, au lieu des revenus, à l'achat des armes et des marchandises que fournit L'Angleterre." At this point, Sismondi adds a footnote: "Nous avons vu... quels ont été les résultats de cette activité artificielle; comment les Anglais ont fourni eux-mêmes l'argent avec lequel leurs marchandises ont été achetées et consommées par les étrangers, et comment, depuis qu'ils ont cessé de prêter à leurs chalands, ceux-ci ont cessé d'acheter."<sup>77</sup> As this quotation shows, Sismondi not only develops prosthetics out of deficient employment-generating spending, but also even anticipates their dilemmas and exhaustion at cases.

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76 Sismondi places great emphasis on this point. "La détresse des manufacturiers est la plus cruelle, parce qu'à la différence des agriculteurs leur subsistance tout entière dépend des échanges." (*Sismondi* (1827) page 405).

77 *Sismondi* (1827) page 415.

## Section 5. Malthus: Costs cannot buy value<sup>78</sup>

### 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”.<sup>79</sup> 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,<sup>80</sup> 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.