

## Lecture 5: Malthus and Ricardo

Having considered Adam Smith, we first turn to other thinkers who can be considered as early classical writers, influenced by the general situation prevailing at the end of the 18th century. After the optimistic approach influenced by the enlightenment, there was a certain reaction and the general outlook became more pessimistic. Contributing to this development were the social consequences of the industrial revolution, which lowered the living standard of the working population and gave rise to widespread unrest: The Luddite movement around 1780 was initiated by a worker, Ned Ludd, who wrecked the machines of the factory in 1779, and the protests remained during the whole period of the Napoleonic wars (in the period 1811-12 more soldiers were used to control the workers than to fight in Spain).

The authors commented upon in V&G Chapter 11 represent the beginning reaction against the thinking of the enlightenment period, but they are important not only for this. **Bentham** is considered as the founding father of utilitarianism, and indeed the approach proposed and outlined on p.119 is strikingly similar to what is used today, for example in economic assessments of drugs and medical treatments. **J.-B.Say** is known nowadays only for Say's law ("supply creates its own demand"), which pertains to the possibility of overproduction and resulting economic crises – the argument was that production sold meant incomes to the producer who could enjoy this only by buying goods, either for consumption or investment. He did however contribute also in other parts of economics, notably by emphasizing the importance of utility in determining the price – his observation that prices are not determined by something intrinsic as for example labor content, but by the interplay of cost and utility, is surprisingly modern.

With regard to overproduction, something also considered by the classical writers Malthus and Ricardo, **Sismondi** is among the first to propose that economic crises are inherent in the capitalist way of production for the market, creating a skewed income distribution which results in lack of demand for the products. He is in several respects anticipating the later contributions of Marx, who recognized his influence.

We then proceed to one of the most important classical authors: **Thomas Robert Malthus** (1766 – 1834) is wellknown for his theory of population, as we shall see he made also other contributions and is often considered as a precursor of Keynes (including by Keynes himself), see below. On the professional side, Malthus is interesting as the first economist employed by a private firm (The East India Company),

not however as a chief economist addressing the media as it would be nowadays, but as professor in the college belonging to the company. Malthus is well covered by V&G. We deal with his population theory and his considerations of possible temporary disequilibrium. Some more detailed formulations of the latter can be found in Lecture Note 5.

As far as time permits, we carry on with **David Ricardo** (1772 – 1823), who is important for several reasons. He introduced the model-oriented reasoning in economics, specifying the simplifying assumptions based on which reasoning is taking place. His main contributions were:

- (1) Establishing a labour theory of value based on diminishing returns of land,
- (2) A theory of distribution with implications for growth,
- (3) Introducing the theory of comparative advantages in international trade,
- (4) Giving a thorough treatment of tax incidence.

Some further comments on (some of) these topics are also in Lecture Note 5.

**We read:** V&G, chapters 12, 13 and possibly 14.

**References:**

Eagly, R.V. (1974), *The Structure of Classical Economic Theory*, Oxford University Press, Oxford.

Lange, O. (1938), The rate of interest and the optimum propensity to consume, *Economica* 5, 12 – 32.