Chapter VII

ON GLUT

The subject of a general glut came under discussion between Ricardo and Malthus before the two had begun their correspondence. In December 1809 Ricardo, participating in bullion controversy, published his first pamphlet 'The High Price of Bullion, a proof of the Depreciation of Bank Notes.' In this pamphlet Ricardo, beside other things, disputed the possibility of a general glut of commodities—a subject which was already under the discussion of economists like J.B. Say, James Mill and William Spence. In January 1811 Ricardo published his second pamphlet 'Reply to Mr. Bosaquet's Practical Observation on the Bullion Report.' In February 1811 Malthus in an article* in the Edinburgh Review expressed his disagreement with the views of Ricardo and pointed out, inter alia, that "prices of commodities are liable to great depressions from a glut in the market." In April 1811 Ricardo published the fourth edition of 'The High Price of Bullion.' In this edition Ricardo added an appendix containing his observations on Malthus's article in the Edinburgh Review and asserted that "No mistake can be greater than to suppose that a nation

* Nominally as a review of the various pamphlets on Bullion including both of Ricardo. Cf. Works and Correspondence of Ricardo, Vol.III p.11.

can ever be without wants for commodities of some sort. It may possess too much of one or more commodities..., but no country ever possessed a general glut of all commodities. It is evidently impossible. A few weeks later Ricardo and Malthus had their first meeting and henceforth the controversy was mostly confined to their private correspondence.

In the Ricardian system no amount of capital accumulation can permanently lower profits unless there be increasing difficulty in the production of corn and consequent high money wages. Ricardo criticises Adam Smith for holding that it is the accumulation of capital and the resultant keen competition on the part of capitalists that results into fall of profits. He says:

"Adam Smith....does not appear to see, that at the same time that capital is increased, the work to be effected by capital, is increased in the same proportion. M.Say has, however, most satisfactorily shewn, that there is no amount of capital which may not be employed in a country, because demand is only limited by production. No man produces, but with a view to consume or sell and he never sells, but with an intention to purchase some other com-

2. Ibid., p.108.
dity, which may be immediately useful to him, or which may contribute to future production. By producing, then, he necessarily becomes either the consumer of his own goods or the purchaser and consumer of the goods of some other person.... There cannot then be accumulated in a country any amount of capital which cannot be employed productively, until wages rise so high in consequence of the rise of necessaries, and so little consequently remains for the profits of stock, that the motive for accumulation ceases. ³

It follows that according to Ricardo demand is only limited by production. Every man who has something to sell wants something in exchange. Hence every man who is seller is also a buyer. Increase of supply therefore means increase of demand. Thus whatever the degree of accumulation of capital there can be no want of profitable avenues of its employment. Ricardo admits that too much of one or a few commodities may be produced which may not sell at remunerative prices. But he points out that this will be only the result of miscalculation in production and cannot be the case with respect

³ Works and Correspondence of Ricardo, Vol.1 pp. 289-290.

⁴ Ibid., p.292.
to all commodities.

Malthus, on the other hand, holds that if accumulation of capital goes beyond a particular limit, the production may increase to such an extent that, in view of the low wages of the labourers and the parsimonious habits of the capitalists and the landlords, whole of it may not find a market. The result may be a general over-production. He says:

"It is undoubtedly possible by parsimony to devote at once a much larger share than usual of the produce of any country to the maintenance of productive labour; and it is quite true that the labourers so employed are consumers as well as unproductive labourers; and as far as the labourers are concerned, there would be no diminution of consumption or demand. But it has already been shewn that the consumption and demand occasioned by the persons employed in productive labour can never alone furnish a motive to the accumulation and employment of capital; and with regard to the capitalists themselves, together with the landlords and other rich persons, they have, by the supposition, agreed to be parsimonious, and by depriving themselves of their usual conveniences and luxuries to save
from their revenue and add to their capital. Under these circumstances, I would ask, how it is possible to suppose that the increased quantity of commodities, obtained by the increased number of productive labourers should find purchasers, without such a fall of price as would probably sink their value below the costs of production.  

According to Malthus the contention of J.B. Say, James Mill and David Ricardo that commodities are exchanged for commodities and therefore there is no possibility of a general glut is based on the fundamental error of comparing commodities with one another. Malthus believes that actually commodities should be compared with the wants and tastes of the consumers. If this is done there is bound to be deficiency of


+ In a footnote Malthus writes:

"Of all the opinions advanced by able and ingenious men which I have ever met with, the opinion of M.Say, which states that, unproduct consomme ou detruit est un debouche ferme[,] i.e. ch./15.) appears to me to be the most directly opposed to just theory, and the most uniformity contradicted by experience. Yet it directly follows from the new doctrine, that commodities are to be considered only in their relation to each other,—not to the consumers. What, I would ask, would become of the demand for commodities, if all consumption except bread and water were suspended for the next half year? What an accumulation of commodities! Quels debouches! What a prodigious market would this event occasion!" Ibid., p.163.
demand with the excessive accumulation of capital. He says:

"...if we compare them (i.e. commodities), as we certainly ought to do, with the numbers, and wants of the consumers, then a great increase of produce with comparatively stationary numbers and with wants diminished by parsimony, must necessarily occasion a great fall of value estimated in labour, so that the same produce, though it might have cost the same quantity of labour as before, would no longer command the same quantity; and both the power of accumulation and the motive to accumulate would be strongly checked."

Ricardo, however, denies the possibility of a deficiency of demand. According to him demand is only limited by production. Whenever there is a supply there is an equivalent demand. Hence every country has the power of purchasing all that it produces. Moreover, since only those commodities would be produced which are suited to the wants and tastes of the people, there can be no want of purchasers. In the Notes on Malthus, Ricardo writes:

"If they (i.e. commodities) were suited to the wants of those who would have the

6. Ibid., p.355.
power to purchase them, they could not
call to find purchasers, and that with-
out fall of price."

Malthus admits that a country has always the power
of purchasing all that it produces. But he contends that
what it may lack is the will to purchase. In a letter to
Ricardo he writes:

"...I by no means think that the power
to purchase necessarily involves a pro-
portionate will to purchase; and I can-
not agree with Mr. Mill in an ingenious
position....that in reference to a nation,
supply can never exceed demand. A nation
must certainly have the power of purcha-
sing all that it produces, but I can easily
conceive it not to have the will....You
have never I think taken sufficiently into
consideration the wants and tastes of man-
kind. It is not merely the proportion of
commodities to each other but their propo-
rtion to the wants and tastes of mankind
that determines prices." 8

8. Works and Correspondence of Ricardo, Vol.VI p.132.
Ricardo believes that there cannot be any lack of will to purchase. According to him whenever there is a power to purchase there is also a will to purchase. He writes to Malthus:

"I go much further than you in ascribing effects to the wants and tastes of mankind,—I believe them to be unlimited. Give men but the means of purchasing and their wants are insatiable. Mr. Mill's theory is built on this assumption. It does not attempt to say what the proportions will be to one another, of the commodities which will be produced in consequence of the accumulation of capital, but presumes that those commodities only will be produced which will be suited to the wants and tastes of mankind, because none other will be demanded." 9

Ricardo contends that there is no limit to the desire for commodities. If a man has any wished for gratification unsupplied he will have a demand for more commodities and since he will be willing to pay for the commodities wanted, it will be effective demand. He says:

"Adam Smith has justly observed "that the desire of food is limited in every man by the narrow capacity of the human stomach,

but the desire of the conveniences and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary. "Nature then has necessarily limited the amount of capital which can at any time be profitably engaged in agriculture, but she has placed no limits to the amounts of capital that may be employed in procuring "the conveniences and ornaments" of life. To procure these gratifications in the greatest abundance is the object in view,..."  

Malthus does not agree with the view that the desire of the conveniences and ornaments of life is unlimited. He believes that the propensity to save, so strongly implanted in the human breast, sets a limit to this desire. Commenting upon Adam Smith's passage, quoted by Ricardo, Malthus says: "That it(i.e. the desire of the conveniences and luxuries) has no certain boundary is unquestionably true; that it has no limit must be allowed to be too strong an expression, when we consider how it will be practically limited

10. Works and Correspondence of Ricardo, Vol. I p. 293;
by the countervailing luxury of indolence, or by the general desire of mankind to better their condition and to make a provision for a family; a principle which, as Adam Smith himself states, is on the whole stronger than the principle which prompts to expense."  

Moreover, according to Malthus, the accumulation of capital and the unlimited desire to consume cannot go together. If people are bent upon saving it means that they are not spending on the gratification of their wants and if they spend on wants, comforts and luxuries they do not save. In other words, the propensity to save and the propensity to consume cannot go together. In a letter to Ricardo, Malthus writes:

"Is it not almost a contradiction, to quote with approbation that passage of Adam Smith which says that the demand for food is limited by the narrow capacity of human stomach, but that the demand for luxuries and conveniences has no limits, and yet to say that parsimony, or the saving of expenditure in luxuries and conveniences and increasing the production of necessaries cannot be unfavour-

Ricardo, however, sees no contradiction between the two. He believes that accumulation of capital itself occasions demand as effectually as a desire to consume. In a letter to Malthus he writes:

"We all wish to add to our enjoyments or to our power. Consumption adds to our enjoyments,—accumulation to our power, and they equally promote demand."  

In his Principles of Political Economy and Taxation Ricardo says:

"If ten thousand pounds were given to a man having 1,00,000 £ per annum, he would not lock it up in a chest, but would either increase his expenses by 10,000 £; employ it himself productively, or lend it to some other person for that purpose; in either case, demand would be increased, although it would be for different objects. If he increased his expenses, his effectual demand might probably be for buildings, furniture, or some such enjoyment. If he employed his 10,000 £ productively, his effectual demand would be for food, clothing, and raw material...."
which might set new labourers to work
but still it would be demand.\textsuperscript{14}

Malthus does not agree with Ricardo. He believes that saving is generally an alternative to consumption. A man cannot increase his saving without reducing his spending. By saving he increases capital at the same time that by reducing his spending he diminishes his demand for the products of the capital. Hence it is excessive capital accumulation that leads to overproduction and falling prices. He says:

"if the conversion of revenue into capital pushed beyond a certain point must, by diminishing the effective demand for produce, throw the labouring classes out of employment, it is obvious that the adoption of parsimonious habits

\textsuperscript{14} Works and Correspondence of Ricardo, Vol.I p.291. In the Notes on Malthus, Ricardo says: "I deny that the wants of the consumers are generally diminished by parsimony, they are transferred with the power to consume to another set of consumers." Works and Correspondence of Ricardo, Vol.II p.309.

\textsuperscript{++} In a footnote Malthus writes: "Parsimony, or the conversion of revenue into capital, may take place without any diminution of consumption, if the revenue increases first." Malthus, op.cit., p.369. Ricardo commenting upon this footnote writes: "I say it always takes place without any diminution of consumption. Mr. Malthus clogs the proposition with a condition "if the revenue increases first." I do not understand what Mr. Malthus means:-if the revenue increases first. Before what?" Works and Correspondence of Ricardo, Vol.II p.326.
in too great a degree may be accompanied by the most distressing affects at first, and by market depression of wealth and population permanently.\(^{15}\)

This does not, of course, mean that Malthus condemns all saving. In fact he realises that saving alone provides the means of greater production and consumption in future. What Malthus argues is that national saving is a benefit or a disadvantage according to the circumstances of the period. In the Introduction to his Principles of Political Economy he writes:

"No considerable and continued increase of wealth could possibly take place without that degree of frugality which occasions, annually, the conversion of some revenue into capital, and creates a balance of produce above consumption; but... the principle of saving, pushed to excess, would destroy the motive to production... If consumption exceed production, the capital of the country must be diminished, and its wealth must be gradually destroyed from its want of power to produce; if production be in great excess above consumption, the motive to accumulate and produce

\(^{15}\) Malthus, op.cit., p.369.
must cease from the want of will to consume. The two extremes are obvious; and it follows that there must be some intermediate point, though the resources of the political economy may not be able to ascertain it, where, taking into consideration both the power to produce and the will to consume, the encouragement to the increase of wealth is the greatest." Elsewhere Malthus writes:

"Fully acknowledging that there is hardly a country in the four quarters of the globe where capital is not deficient, and in most of them very greatly deficient, compared with the territory and even the number of people; and fully allowing at the same time the extreme desirableness of an increase of capital, I should say that, 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, with little
increase of a wholesome and effective capital." 17

It follows that according to Malthus too much of saving
is accompanied by deficiency of demand which leads to falling
prices and loss of profits rendering both capital and labour
redundant.

Ricardo does not agree with Malthus. He is convinced
that it is not the accumulation of capital but a rise in the
price of corn and the consequent rise in the money wages along
with the process of accumulation that results into the fall
of profits. He makes only one exception to this viz. a situation
when there is so fast an increase in the funds for the maintenance
of labour that there is a scarcity of hands to make use of
these. According to Ricardo in this case there will be a fall of
profits without a rise in the price of corn. However this will
be temporary situation, for the labour supply will soon increase
and the situation will change. Ricardo says:

"There is only one case, and that will
be temporary, in which accumulation of
capital with a low price of food may be
attended with a fall of profits; and that
is, when the funds for the maintenance of
labour increase much more rapidly than
population;—wages will then be high,

17. Ibid., p.372.
and profits low. If every man were to forgo the use of luxuries, and be intent only on accumulation, a quantity of necessaries might be produced, for which there could not be any immediate consumption. Of commodities so limited in number, there might undoubtedly be universal glut, and consequently there might neither be demand for an additional quantity of such commodities, nor profits on the employment of more capital. If men ceased to consume, they would cease to produce. This admission does not impugn the general principle...it is difficult to suppose that there can be any disposition to devote the whole capital and labour of the country to the production of necessaries only,”

In a letter to Malthus, Ricardo writes:

“Till a country has arrived at the end of its resources from the diminished powers of the land to afford a further increase, I hold it to be impossible that there should be, at the same time, a redundancy of capital, and of population. I agree that profits may be for a time very low

because capital is abundant compared with labour but they cannot both I think be abundant at one and the same time."\textsuperscript{19}

Malthus believes that what Ricardo admits as an exception can be general rule because labour supply always takes some time to adjust itself to increased demand. He remarks:

"As, from the nature of population, an increase of labourers cannot be brought into the market, in consequence of a particular demand, till after the lapse of sixteen or eighteens years, and the conversion of revenue into capital may take place much more rapidly; a country is always liable to an increase of the funds for the maintenance of labour faster than the increase of population. But if whenever this occurs, there may be a universal glut of commodities, how can it be maintained, as a general position, that capital is never redundant; and that because commodities may retain the same relative value, a glut can only be partial, not general?\textsuperscript{20}

Malthus thus is convinced that a very rapid and excessive accumulation of capital may increase production to such

\textsuperscript{19} Works and Correspondence of Ricardo, Vol.1 pp.292-293.

\textsuperscript{20} Malthus, op.cit., p.357.
an extent that there might not be enough of demand for it, and consequently there may be a general glut. There is, however, one exception to this general rule viz. the case of 'necessaries of life' or the food and other materials for clothing and lodging. Malthus believes that the necessaries of life have a peculiar quality "of being able, when properly distributed, to create their own demand, or to raise up a number of demanders in proportion to the quantity of necessaries produced." Hence whenever the supply of necessaries increases, the population also increases to create a demand for the increased supply of food.

Malthus is very sure of the truth of his theory. He says:

"...it appears to me perfectly clear in theory, and universally confirmed by experience, that the employment of a capital, too rapidly increased by parsimonious habits, may find a limit, and does, in fact, often find a limit, long before there is any real difficulty in procuring the means of subsistence; and that both capital and population may be at the same time, and for a period of great length, redundant, compared with the effective demand for produce."  

21. Ibid., pp.139-140.
22. Ibid., p. 469.
The question arises what is the way to avoid the situation. Malthus's answer to this question lies in the following passage:

"The three causes which, by favouring distribution, tend most to keep up and increase the exchangeable value of the whole produce, are the division of landed property, the extension of domestic and foreign trade, and the maintenance of unproductive labourers."\(^2^3\)

This obviously means that since the source of the trouble lies in the deficiency of demand, any step that adds to the willingness of people to consume more will help to dispose of the products at remunerative prices. Since, according to Malthus, the moderate wealth of many persons is more favourable\(^2^4\) to effective demand than the excess wealth of the few, one way to induce more spending is the division of the landed property. Another step suggested by Malthus is the extension of trade between different parts of the country and the different countries of the world. Malthus believes that trade, both domestic and foreign, is highly necessary to give a stimulus to productive industry because all trade causes a better distribution of the produce and therefore gives a greater market value to it. Moreover, by increasing the number and

\(^{23}\) Ibid., pp. 505-506.

\(^{24}\) Cf. Works and Correspondence of Ricardo, Vol.II p.385.
variety of goods, trade increases the desire to consume. Yet another important way to increase the demand is to rely more on 'unproductive consumers' i.e. those consumers who receive their incomes for services but add nothing to the quantity of commodities. Since they are non-producing consumers, greater is their number in the society the larger will be the demand for commodities in proportion to the supply.

In closing this chapter it may be pointed out that Malthus's theory of depression has been highly praised in recent times. J.M. Keynes, for instance, has hailed Malthus as a pre-Keynesian and has remarked that at the hands of Malthus "the notion of the insufficiency of effective demand takes a definite place as a scientific explanation of unemployment." ²⁵ Keynes has quoted certain 'characteristic passages' which appear to bear out this interpretation. There is, of course, no doubt that Malthus's stress, upon aggregate demand, which is obviously in line with modern thought, places him in the first rank of economists. However, it is difficult to agree with the view that Malthus really put forward a 'scientific explanation of unemployment' in the manner Keynes himself did. Malthus's theory of depression is not Keynesian; it is a

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²⁶ Ibid., pp. 362-364.
purely non-monetary theory. Malthus expressly repudiated the possibility of hoarding. According to his theory depression arises because too much saving gets invested and not because of the failure of saving to become invested. In fact Malthus failed to win the argument with Ricardo primarily because his theory did not turn on hoarding and, therefore, could not explain clearly how and why demand could be deficient. Another reason why it was not possible for Malthus to win over Ricardo was the stage of economic development of British economy at that time. It was the period of rapid economic development of the country and therefore it was difficult for economists to envisage that saving—which was the most important variable of economic development—could be a vice in any sense of the term.

On the other hand, when Keynes wrote his 'General Theory' the capitalist countries of the world had already achieved a very high stage of economic development and it had become difficult for these countries to maintain their rate of growth. Incidentally it was the high stage of economic development of the advanced capitalist countries that not only induced Keynes to put forward a theory of depression but also impelled economists like Alvin Hansen to develop a theory of secular stagnation.

+ "No Political economists of the present day can by saving mean mere hoarding." Malthus, op.cit., p.32.