Chapter I

ON SCOPE OF POLITICAL ECONOMY

Adam Smith laid the foundation of the classical economics and it is generally believed that both Ricardo and Malthus followed that tradition. However, a close examination of the works of David Ricardo and Malthus would indicate that it was only the latter who followed Adam Smith and that the former deviated from him substantially so much so that he can be considered to have established an entirely different system. In other words, the difference between Adam Smith and Ricardo is that of kind rather than that of degree.

Adam Smith named his masterpiece "An Inquiry into the Nature and Causes of the Wealth of Nations," clearly indicating thereby that his analysis was concerned with the magnitude of the aggregate production of wealth and the laws according to which this magnitude is increased. His book began with the following words:

"The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of the labour, or in what is purchased with that produce from other nations. According, therefore, as this produce, or what is purchased with it, bears a greater or smaller proportion to the number of those who are
to consume it, the nation will be better or worse supplied with all the necessaries and conveniences for which it has occasion."

It is obvious that according to this approach a nation is better or worse as the production per head is large or small independent of the state of distribution of the aggregate produce. It is, of course, true that in Adam Smith's "Wealth of Nations" the classification of incomes into rent, profits and wages plays a great part, but these are discussed primarily because they are the 'component parts of the prices' of the commodities and not because they are shares in distribution. Edwin Cannan has correctly pointed out: "The 'natural price' of a commodity is represented as varying with the natural rate of each of its component parts; and the causes which increase or decrease each of these component parts, wages, profits and rent, are discussed with a view to their effects, not upon the way in which the produce is distributed but upon the natural price of the commodity produced."²

Ricardo approached the subject from a different standpoint. He claimed his concern not only with the causes of wealth

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but also with its distribution. Before the publication of his "Principles of Political Economy and Taxation" Ricardo had written to Malthus:

"I wish much to see a regular and connected statement of your opinions on what I deem the most difficult, and perhaps the most important topic of Political Economy, namely the progress of a country in wealth and the laws by which the increasing produce is distributed."³

In the Preface to the first edition of his 'Principles' Ricardo explains the purpose of his investigation as follows:

"The produce of the earth—all that is derived from its surface by the united application of labour, machinery and capital—is divided among three classes of the community; namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated.

But in different stages of society, the proportions of the whole produce of the

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³ Piero Sraffa with the Collaboration of M.H. Dobb(Ed.), The Works and Correspondence of David Ricardo,(Published for the Royal Economic Society), Cambridge University Press. (Hereafter to be referred as Works and Correspondence of Ricardo) Vol. VII p. 24.
earth which will be allotted to each of
these classes, under the names of rent,
profit and wages, will be essentially different;
.....To determine the laws which regulate this distribution is the principal
problem in Political Economy. 4

A few years later Ricardo himself attempted to tackle
the "most difficult" and the "most important" problem and we
find him writing to Malthus:

"Political Economy you think is an enquiry
into the nature and causes of wealth—I
think it should rather be called an enquiry into the laws which determine the division of the produce of industry amongst
the classes who concur in its formation." 5

It is clear that Ricardo wanted to determine the way
in which the distribution of nation's annual national dividend
took place among the various classes and also the laws that
regulated the proportion which each claimant got. He was concerned not so much with the past or present distribution as with
"natural course of rent, profit and wages" along with the process of growth.

5. Works and Correspondence of Ricardo, Vol. VIII p.278.
Malthus followed the scope of the subject as laid down by Adam Smith viz. 'an enquiry into the nature and the causes of the wealth.' He, however, differed from Adam Smith in regard to latter's belief that every frugal man is the benefactor of the society. Malthus pointed out that saving should be considered a relative virtue rather than an absolute one. According to Malthus too much savings would have a disincentive effect on production which would lead to stagnation and poverty of the community and, therefore, a very important problem for economists is to find out a position between no-saving and excessive-savings where the incentive to the increase of wealth is the maximum. He says:

"Adam Smith has stated, that capitals are increased by parsimony, that every frugal man is a public benefactor, and that the increase of wealth depends on the balance of produce above consumption. That these propositions are true to a great extent is perfectly unquestionable. 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 it is quite obvious that they are not true to an indefinite
extent, and that the principle of saving, pushed to excess, would destroy the motive to production.... The two extremes are obvious; and it follows that there must be some intermediate point, though the resources of 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."^6

Malthus does not accept the scope of Political Economy as put forward by Ricardo. He believes that Ricardo's definition of the scope of the subject was too narrow to be practically useful. Thus in a letter to Ricardo, he writes:

"With regard to your new definition of the objects of Political Economy, I own it appears to me very confined; and if it be just, I should say that political economy would be at once converted from a science which I have always considered as the most practically useful in the whole circle, into one which would merely serve to gratify curiosity."^7

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The difference of opinion between Ricardo and Malthus regarding the scope of the subject was the natural result of the difference in their method of investigation. Malthus was more practical in his approach and emphasised practical observations. He believed that economic theories should stand the tests of examination and experience and should be consonant with facts. Thus in a letter to Ricardo, he says:

"You know I am always inclined to acknowledge the authority of experience, and I cannot help thinking that in the point to which you refer experience is against you." 8

In another letter he writes to Ricardo:

"...what confidence can be placed in a theory, as the foundation of future measures which is absolutely inconsistent with the past and the present state of things." 9

Ricardo, on the other hand, was more theoretical in his approach. His method was that of a stern logician, arguing on a high level of abstraction. He emphasised principles rather than practice and to demonstrate the operation of the principles he reasons from the premises of what he calls 'strong cases.' Thus in trying to explain to Malthus the source of their disag-

8. Works and Correspondence of Ricardo, Vol.VI p. 317
9. Works and Correspondence of Ricardo, Vol.VIII p.260
reewent, Ricardo writes:
"Our differences may in some respects, I think, be ascribed to your considering
my book as more practical than I intended
it to be. My object was to elucidate prin-
ciples, and to do this I imagined strong
cases that I might show the operation of
those Principles."

In a letter to Trower Ricardo says:
"....it is one of my complaints against
him (i.e. Malthus) that he does not answer
your principle but wishes to show that
you have taken your case so wide, that it
could under no circumstances exist; but
however limited might be your case, the
same principle is involved, and it is that
which should be answered."

The dispute on the method of investigation between
Ricardo and Malthus was so much that they even went to the ext-
ent of accusing each other of following different methods. Thus
in a letter to Malthus, Ricardo wrote:
"If I am too theoretical which I really
believe is the case, you I think are too

10. Ibid., p. 184.
11. Ibid., pp. 234-235.
practical. There are so many combinations, so many operating causes in Political Economy, that there is great danger in appealing to experience in favour of a particular doctrine, unless we are sure that all the causes of variation are seen and their effects duly estimated."

In fact the difference between Ricardo and Malthus as far as the method of approach is concerned was due to a difference in objective. Ricardo's analysis is devoted to long-period in which the trend of the economy has been traced. Malthus, on the other hand, wanted an explanation of short-period problems and hence his analysis was mainly concerned with the short-run changes. In a letter to Malthus, Ricardo writes:

"It appears to me that one great cause of our difference in opinion,... is that you have always in your mind the immediate and temporary effects of particular changes—whereas I put these immediate and temporary effects quite aside, and fix my whole attention on the permanent state of things which will result from them. Perhaps you estimate these temporary effects too highly, whilst I am too much disposed to undervalue them.

To manage the subject quite right they should be carefully distinguished and mentioned, and the due effects ascribed to each."\(^{13}\)

Malthus agrees with Ricardo that this is really one cause of their difference and says:

"I certainly am disposed to refer frequently to things as they are, as the only way of making one's writings practically useful to society,.....Besides I really think that the progress of society consists of irregular movements, and that to omit the consideration of causes which for eight or ten years will give a great stimulus to production and population, or a great check to them, is to omit the causes of the wealth and poverty of nations—the grand object of all enquiries in political economy."\(^{14}\)

Malthus lays a great stress on a careful investigation of the premises and believes that if we want to have inferences that are just as applied to the actual state of things, the premises should be realistic. He writes to Ricardo:

"A writer may, to be sure, make any hypo-

\(^{13}\) Works and Correspondence of Ricardo, Vol.VII p.120.

\(^{14}\) Ibid., pp.121-122.
thesis he pleases; but if he supposes what is not at all true practically, he precludes himself from drawing any practical inferences from his hypothesis."\textsuperscript{15}

According to Malthus the main cause of the mistakes and the difference of opinion on the part of political economists is a general tendency to oversimplify and generalise. He believes that in order to have true and useful theories we should neither draw very hasty conclusions by appeal to partial facts alone, nor ignore to sufficiently test these theories by reference to actual experience. He says:

"The principal cause of error, and of the differences which prevail among the scientific writers on political economy, appears to me to be a precipitate attempt to simplify and generalize; and while their more practical opponents draw too hasty inferences from a frequent appeal to partial facts, these writers run into a contrary extreme, and do not sufficiently try their theories by a reference to that enlarged and comprehensive experience which, on so complicated a subject, can alone establish their truth and utility."\textsuperscript{16}

\textsuperscript{15} Ibid., p.122.

\textsuperscript{16} Malthus, op.cit., pp. 5-6.
Malthus holds that an important job of an economist is to prepare the principles of political economy in such a way that they are applicable to reality. This, he believes, can be done only by a frequent reference to experience and by taking into account all the factors which are responsible for a particular phenomenon. 17

It can, however, be said in defense of Ricardo that what he in fact did was exactly on the lines of most modern economists when they try to put forward some very useful functional relationships in which the two simplest possible but most crucial variables are involved. In fact economic reality as a whole is so complicated that any attempt to comprehend it or, for that matter, consider it in all its aspects is bound to be futile. What is therefore attempted is to build up the useful functional relationships which are correct as a first approximation. One can introduce other variables subsequently to bring the functional relationship nearer and nearer reality, of course never reaching it. It is in fact remarkable that a person like Ricardo having almost no background of mathematics was able to follow a method of investigation which is so prestigious and acceptable to modern economists. It does not necessarily mean that in building up the models that Ricardo did he was able to present all of them in the most crucial and appropriate form. In fact one of his important/denying the possibility of over-production has been subsequently proved very defective. Yet

within the framework in which Ricardo wrote, he did a very commendable job in presenting what he calls "strong cases" in the form of very meaningful functional relationships which were mostly correct as a first approximation.

It should not, however, be inferred from the above that Ricardo while considering the question of the distribution of the national income does not concern himself with the problem of economic growth or, for that matter, Malthus while considering the question of the nature and the causes of the wealth does not consider the problems of distribution. Actually both Ricardo and Malthus are concerned with the problem of production and that of distribution. There are, of course, some economists who charge Ricardo of having done a great harm to the subject by shifting the emphasis from economic growth to the narrow problem of distribution. For instance, John H. Williams has pointed out that at the hands of Ricardo: "Economics had taken a major turn in the road—a turn away from Smith's causes of wealth." 18 This notion has in fact gained considerable strength at the hands of J.M. Keynes who remarked that Ricardo "expressly repudiated any interest in the amount of the national dividend, as distinct from its distribution." 19 From Ricardo's letter to Malthus, quoted by Keynes it appears that Keynes was right; but a perusal of Ricardo's system as a whole shows that the view that Ricardo

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shunted the car of the subject on to a wrong line is ill-founded. Actually, Ricardo was not concerned with the distribution of wealth in a static economy but with the progress of country in wealth and the distribution of wealth along with the progress. As has been already pointed out, in a letter to Malthus, Ricardo says:

"I wish much to see a regular and connected statement of your opinion on what I deem the most difficult, and perhaps the most important topic of political economy, namely the progress of a country in wealth and the laws by which the increasing produce is distributed."

In another letter to Malthus, Ricardo says:

"I shall be glad to see in a connected form your matured opinions on the progress of rent, profits and wages, and in what manner they are affected by the increasing difficulty of procuring food, by the increase of capital, and the improvement of machin-

(Contd....)

viz "Political Economy you think is an enquiry into the nature and causes of wealth—I think it should rather be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation. No law can be laid down respecting quantity, but a tolerably correct one can be laid down respecting proportions. Everyday I am more satisfied that the former enquiry is vain and delusive and the latter only the true objects of the science."

nergy* (i.e. factors that according to Ricardo are the symptoms of economic growth).

It may be pointed out that in fact any synthesis of what W.J. Baumol calls "the Classical Dynamics" is bound to represent in particular the views of Ricardo, the main theme of whose theory of economic development is the dependence of economic growth on the accumulation of capital, and the development of the economy from a progressive state into a stationary state. R.F. Harrod has specifically mentioned the contents of dynamic analysis in Ricardian system.

Malthus was also interested in both economic growth and distribution. Malthus considered the study of the causes of the wealth and poverty of nations as "the grand object of all enquiries in political economy." Moreover, chapter VII of his "Principles of Political Economy" is entitled "on the immediate causes of the progress of wealth" wherein Malthus extensively examines population, accumulation of capital, fertility of the soil, labour-saving inventions etc as stimulus to the increase of wealth. Malthus's interest in distribution of wealth is obvious from the fact that he was the first economist, besides of course Edward West, to give a comprehensive theory of rent, a

22. Ibid., p.71
theory which Ricardo not only appreciated but also admits to have made use of for developing his own theory of rent, although the latter in effect turns out to be different from that of Malthus. Malthus's concern with distribution is also borne out by the fact that chapters III, IV and V of his 'Principles of Political Economy' deal with the rent of land, wages of labour and profits of capital respectively. However, while Malthus, like Adam Smith, put the problem of production in the centre and thus emphasised the nature and causes of the wealth, Ricardo emphasised the distribution of the national income among the classes along with the rising national income.

There is another difference between the two. While considering the problem of economic growth Ricardo believed that it will be a smooth process and would be governed by the rate of accumulation which in its turn would by affected by the declining rate of profit so that the rate of growth will eventually peter out and there will be a stationary state in which the rate of profit will become zero. This excludes the possibility of a depression or a trade cycle. Malthus, on the other hand, emphasised that in view of the technological progress the productive capacity and the production in general would far expand compared to its demand resulting in over-production and a general glut. This aspect of difference will be explained in detail when a close examination of Ricardo-Malthus controversy on the possibility of general glut is taken up. Yet it is worthwhile noting that Ricardo's system does not envisage any fluctua-
tions along with the process of economic growth and consequently excludes the phenomenon of trade cycle from the scope of the subject, whereas for Malthus the problem of trade cycles was an important part of the scope of the Political Economy. Incidentally this aspect of their difference on the scope of Political Economy was fundamental to the subsequent controversy between J.M. Keynes and the representative of the classical economists, namely A.C. Pigou.