

Space for Notes



Rev. T. R. Malthus
Principles of Political Economy
considered with a view to their practical application,
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**Book II, Chapter I, On the Progress of Wealth,
Section III.-Of Accumulation, or the Saving from Revenue to add to Capital,
considered as a Stimulus to the Increase of Wealth.**

THOSE who reject mere population as an adequate stimulus to the increase of wealth, are generally disposed to make every thing depend upon accumulation. It is certainly true that no permanent and continued increase of wealth can take place without a continued increase of capital; and I cannot agree with Lord Lauderdale in thinking that this increase can be effected in any other way than by saving from the stock which might have been destined for immediate consumption, and adding it to that which is to yield a profit; or in other words, by the conversion of revenue into capital.*

[*See Lord Lauderdale's Chapter on Parsimony, in his *Inquiry into the Nature and Origin of Public Wealth*, ch. iv, p. 198, 2 edit. Lord Lauderdale appears to have gone as much too far in deprecating accumulation, as some other writers in recommending it. This tendency to extremes is one of the great sources of error in political economy, where so much depends upon proportions.]

But we have yet to inquire what is the state of things which generally disposes a nation to accumulate; and further, what is the state of things which tends to make that accumulation the most effective, and lead to a further and continued increase of capital and wealth.

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 suppose this to be done, it is quite true that the labourers so employed are consumers as well as those engaged in personal services, and that 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 workmen 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 conveniencies and luxuries to save from their revenue and add to their capital. Under these circumstances, it is impossible 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 that of the outlay, or, at least, so reduce profits as very greatly to diminish both the power and the will to save.

It has been thought by some very able writers, that although there may easily be a glut of particular commodities, there cannot possibly be a glut of commodities in general; because, according to their view of the subject, commodities being always exchanged for commodities, one half will furnish a market for the other half, and production being thus the sole source of demand, an excess in the supply of one article merely proves a deficiency in the supply of some other, and a general excess is impossible. M. Say, in his distinguished work on political economy, has indeed gone so far as to state that the consumption of a commodity by taking it out of the market diminishes demand, and the production of a commodity proportionably

increases it.

This doctrine, however, as generally applied, appears to me to be utterly unfounded, and completely, to contradict the great principles which regulate supply and demand.

It is by no means true, as a matter of fact, that commodities are always exchanged for commodities. An immense mass of commodities is exchanged directly, either for productive labour, or personal services: and it is quite obvious, that this mass of commodities, compared with the labour with which it is to be exchanged, may fall in value from a glut just as any one commodity falls in value from an excess of supply, compared either with labour or money.

In the case supposed there would evidently be an unusual quantity of commodities of all kinds in the market, owing to those who had been before engaged in personal services having been converted, by the accumulation of capital, into productive labourers; while the number of labourers altogether being the same, and the power and will to purchase for consumption among landlords and capitalists being by supposition diminished, commodities would necessarily fall in value compared with labour, so as very greatly to lower profits, and to check for a time further production. But this is precisely what is meant by the term glut, which, in this case, is evidently general not partial.

M. Say, Mr. Mill,* and Mr. Ricardo, the principal authors of these new doctrines, appear to me to have fallen into some fundamental errors in the view which they have taken of this subject.

[* Mr. Mill, in a reply to Mr. Spence, published in 1808, has laid down very broadly the doctrine that commodities are only purchased by commodities, and that one half of them must always furnish a market for the other half. The same doctrine appears to be adopted in its fullest extent by the author of an able and useful article on the Corn Laws, in the supplement to the Encyclopaedia Britannica, which has been referred to a previous chapter. These writers do not seem to be aware of what is unquestionably true, that demand is always determined by value, and supply by quantity. Two bushels of wheat are double the quantity of one in regard to supply ; but in numerous cases, two bushels will not make so great a demand as one bushel.]

In the first place, they have considered commodities as if they were so many mathematical figures, or arithmetical characters, the relations of which were to be compared, instead of articles of consumption, which must of course be referred to the numbers and wants of the consumers.

If commodities were only to be compared and exchanged with each other, then indeed it would be true that, if they were all increased in their proper proportions to any extent, they would continue to bear among themselves the same relative value; but, if we compare them, as we certainly ought to do, with the means of producing them, and with the numbers and wants of the consumers, then a great increase of produce with comparatively stationary numbers or 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.

It is asserted that effectual demand is nothing more than the offering-of one commodity in exchange for another which has cost the same quantity of labour. But is this all that is necessary to effectual demand ? Though each commodity may have cost the same quantity of labour in its production, and they may be exactly equivalent to each other in exchange, yet why may not both be so plentiful as not to

command more labour, than they have cost, that is, to yield no profit, and in this case, would the demand for them be effectual? Would it be such as to encourage their continued production? Unquestionably not. Their relation to each other may not have changed; but their relation to the wants of the society, and their relation to labour, may have experienced a most important change.

It will be readily allowed that a new commodity thrown into the market, which, in proportion to the labour employed upon it, is of higher exchangeable value than usual, is precisely calculated to increase demand; because it implies, not a mere increase of quantity, but an increase of value owing to a better adaptation of the produce to the tastes, wants and consumption of the society. But to fabricate or procure commodities of this kind is the grand difficulty; and they certainly do not naturally and necessarily follow an accumulation of capital and increase of commodities, most particularly when such accumulation and increase have been occasioned by economy of consumption, or a discouragement to the indulgence of those tastes and wants, which are the very elements of demand and of value.

Mr. Ricardo, though he maintains as a general position that capital cannot be redundant, is obliged to make the following concession. He says, "There is only one case, and that will be temporary, in which the 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 and profits low. If every man were to forego 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 an 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." Mr. Ricardo then adds, "This admission does not impugn the general principle."* In this last remark I can by no means agree with him. It appears to me most completely to impugn the general principle. Even if we suppose with Mr. Ricardo, what is not true, that an increase of population would certainly remedy the evil; yet as from the nature of a population, an increase of labourers cannot be brought into the market, in consequence of a particular demand, till after the lapse of sixteen or eighteen years, and the conversion of revenue into capital by saving, may take place much more rapidly ; a country is always liable to an increase in the quantity of the funds for the maintenance of labour faster than the increase of population. But if, whenever this occurs, there may be an 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 values, a glut can only be partial, not general?

[**Princ. Of Polit. Econ.* Ch. xxi. p. 343, 3rd edit.]

Another fundamental error into which the writers above-mentioned and their followers appear to have fallen is, the not taking into consideration the influence of so general and important a principle in human nature, as indolence or love of ease.

It has been supposed* that, if a certain number of farmers and a certain number of manufacturers had been exchanging their surplus food and clothing with each other, and their powers of production were suddenly so increased that both parties could, with the same labour, produce luxuries in addition to what they had before obtained, there could be no sort of difficulty with regard to demand, as part of the luxuries which the farmer produced would be exchanged against part of the luxuries produced by the manufacturer; anal the only result would be, the happy one of both parties being better supplied and having more enjoyments.

[**Edinburgh Review*, No. LXIV. p. 471.]

But in this intercourse of mutual gratifications, two things are taken for granted, which are the very points in dispute. It is taken for granted that luxuries are always preferred to indolence, and that an adequate proportion of the profits of each party is consumed as revenue. What would be the effect of a desire to save under such circumstances, shall be considered presently. The effect of a preference of indolence to luxuries would evidently be to occasion a want of demand for the returns of the increased powers of production supposed, and to throw labourers out of employment. The cultivator, being now enabled to obtain the necessaries and conveniences to which he had been accustomed, with less toil and trouble, and his tastes for ribands, lace and velvet not being fully formed, might be very likely to indulge himself in indolence, and employ less labour on the land; while the manufacturer, finding his velvets rather heavy of sale, would be led to discontinue their manufacture, and to fall almost necessarily into the same indolent system as the farmer. That an efficient taste for luxuries and conveniences, that is, such a taste as will properly stimulate industry, instead of being ready to appear at the moment it is required, is a plant of slow growth, the history of human society sufficiently shows; and that it is a most important error to take for granted, that mankind will produce and consume all that they have the power to produce and consume, and will never prefer indolence to the rewards of industry, will sufficiently appear from a slight review of some of the nations with which we are acquainted. But I shall have occasion for a review of this kind in the next section ; and to this I refer the reader.

It has been said, that it is specifically the deficiency of production on the part of the indolent, which occasions the want of demand for the products of the industrious; and that, if the idle were made to produce, the surplus would disappear. But this remark is evidently beside the question. The real question is, whether under the actual habits and tastes of the society, any number of persons who might be inclined to save and produce, if they suited their produce to these habits and tastes, would be secure of finding such a demand for all they could bring into the market as to prevent the possibility of what is called a glut, or a great fall of profits in a large mass of commodities. What might happen under different tastes and habits is entirely a different question.

It has also been said, that there is never an indisposition to consume, that the indisposition is to produce. Yet, what is the disposition of those master manufacturers, and merchants who produce very largely and consume sparingly? Is their will to purchase commodities for their consumption proportioned to their power? Does not the use which they make of their capital clearly show that their will is to produce, not to consume? and in fact, if there were not in every country some who were indisposed to consume to the value of what they produced, how could the national capital ever be increased ?

A third very serious error of the writers above referred to, and practically the most important of the three, consists in supposing that accumulation ensures demand; or that the consumption of the labourers employed by those whose object is to save, will create such an effectual demand for commodities as to encourage a continued increase of produce.

Mr. Ricardo observes, that "If 10,000 pounds were given to a man having 100,000 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 materials, which might set new labourers to work. But still it would be demand." *

[**Prin. of Polit. Econ.* ch. xxi. p. 361, 2nd edit.]

Upon this principle it is supposed that if the richer portion of society were to forego their accustomed conveniences and luxuries with a view to accumulation, the only effect would be a direction of nearly the whole capital of the country to the production of necessaries, which would lead to a great increase of cultivation and population. But this is precisely the case in which Mr. Ricardo distinctly allows that there might be a universal glut; for there would undoubtedly be more necessaries produced than would be sufficient for the existing demand: This state of things could not, however, continue; since, owing to the fall which would take place, cultivation would be checked, and accumulation be arrested in its progress.

It is therefore obvious that without an expenditure which will encourage commerce, manufactures, and personal services, the possessors of land would have no sufficient stimulus to cultivate well; and a country such as our own, which had been rich and populous, would, with too parsimonious habits, infallibly become poor and comparatively unpeopled.

This reasoning will obviously apply to the case noticed before. While the farmers were disposed to consume the luxuries produced by the manufacturers, and the manufacturers those produced by the farmers, all would go on smoothly; but if either one or both of the parties were disposed to save largely, with a view of bettering their condition, and providing for their families in future, the state of things would be very different. The farmer, instead of indulging himself in ribands, lace, and velvets,* would be disposed to be satisfied with more simple clothing, but by this economy he would disable the manufacturer from purchasing the same amount of his produce; and for the returns of so much labour employed upon the land, and all greatly increased in productive power, there would evidently be no market. The manufacturer, in like manner, instead of indulging himself in sugar, grapes, and tobacco, might be disposed to save with a view to the future, but would be totally unable to do so, owing to the parsimony of the farmers and the want of demand for manufactures.**

[**Edinburgh Review*, No. lxiv. p. 471.]

[** Theoretical writers in Political Economy, from the fear of appearing to attach too much importance to money, have perhaps been too apt to throw it out of their consideration in their reasonings. It is an abstract truth that we want commodities, not money. But, in reality, no commodity for which it is possible to sell our goods at once, can be an adequate substitute for a circulating medium, and enable us in the same manner to provide for children, to purchase an estate, or to command labour and provisions a year or two hence. A circulating medium is absolutely necessary to any considerable saving; and even the manufacturer would get on but slowly, if he were obliged to accumulate in kind all the wages of his workmen. We cannot therefore be surprised at his wanting money rather than other goods; and, in civilized countries, we may be quite sure that if the farmer or manufacturer cannot sell his products so as to give him, a profit estimated in money, his industry will immediately slacken. The circulating medium bears so important a part in the distribution of wealth, and the encouragement of industry, that it is hardly ever safe to set it aside in our reasonings, and all attempts at illustration, by supposing advances of a certain quantity of corn and clothing, instead of a certain quantity of money, which every year practically represents a variable quantity of corn, cannot fail to lead us wrong.]

An accumulation, to a certain extent, of common food and common clothing might take place on both sides; but the amount must necessarily be extremely confined. It would be no sort of use to the farmer to go on cultivating his land with a view

merely to give food and clothing to his labourers. He would be doing nothing either for himself or family, if he neither consumed the surplus of what they produced himself, nor could realize it in a shape that might be transmitted to his descendants. If he were a tenant, such additional care and labour would be entirely thrown away; and if he were a landlord, and were determined, without reference to markets, to cultivate his estate in such a way as to make it yield the greatest neat surplus with a view to the future, it is quite certain that the large portion of this surplus which was not required either for his home consumption, or to purchase clothing for himself and his labourers, would be absolutely wasted. If he did not choose to use it in the purchase of luxuries or the maintenance of personal services, it might as well be thrown into the sea. To save it, that is to use it in employing more labourers upon the land, would be to impoverish both himself and his family, and render it impossible at a future time to obtain a large disposable produce from his land, without retracing his steps and dismissing half his labourers, who might starve when their labour was no longer wanted.

It would be still more useless to the manufacturers to go on producing clothing beyond what was wanted by the agriculturists and themselves. Their numbers indeed would entirely depend upon the demands of the agriculturists, as they would have no means of purchasing subsistence, but in proportion as there was a reciprocal want of their manufactures. The population required to provide simple clothing for such a society with the assistance of good machinery would be inconsiderable, and would absorb but a small portion of the proper surplus of rich and well cultivated land. There would evidently therefore be a general want of demand, both for produce and population; and while it is quite certain that an adequate passion for consumption may fully keep up the proper proportion between supply and demand, whatever may be the powers of production, it appears to be quite as certain that an inordinate passion for accumulation must inevitably lead to a supply of commodities beyond what the structure and habits of such a society will permit to be profitably consumed.*

[* The reader must already know, that I do not share in the apprehensions of Mr. Owen about the permanent effects of machinery. But I am decidedly of opinion, that on this point he has the best of the argument with those who think that accumulation ensures effectual demand.]

But if this be so, surely it is a most important error to couple the passion for expenditure and the passion for accumulation together, as if they were of the same nature; and to consider the demand for the food and clothing of the labourer, who is to be employed productively, as securing such a general demand for commodities and such a rate of profits for the capital employed in producing them, as will adequately call forth the powers of the soil, and the ingenuity of man in procuring the greatest quantity both of raw and manufactured produce.

If, in the process of saving, all that was lost by the capitalist was gained by the labourer, the check to the progress of wealth would be but temporary, as stated by Mr. Ricardo; and the consequences need not be apprehended. But if the conversion of revenue into capital pushed beyond a certain point must, by diminishing the effectual demand for produce, throw the labouring classes out of employment, it is obvious that the adoption of parsimonious habits beyond a certain point, may be accompanied by the most distressing effects at first, and by a marked depression of wealth and population afterwards.

It is not, of course, meant to be stated that parsimony, or even a temporary diminution of consumption,* is not often in the highest degree useful, and sometimes absolutely necessary to the progress of wealth. A state may certainly be ruined by extravagance; and a diminution of the actual expenditure may not only be

necessary on this account, but when the capital of a country is deficient, compared with the demand for its products, a temporary economy of consumption is required, in order to provide that supply of capital which can alone furnish the means of an increased' consumption in future. All that is contended for is, that no nation can possibly grow rich by an accumulation of capital, arising from a permanent diminution of consumption; because such accumulation being beyond what is wanted in order to supply the effectual demand for produce, a part of it would very soon lose both its use and its value, and cease to possess the character of wealth.

[* Parsimony, or the conversion of revenue into capital, may take place without any diminution of consumption, if the revenue increases first.]

The laws which regulate the rate of profits and the progress of capital, bear a very striking and singular resemblance to the laws which regulate the rate of wages and the progress of population.

Mr. Ricardo has very clearly shewn that the rate of profits must diminish, and the progress of accumulation be finally stopped, under the most favourable circumstances, by the increasing difficulty of procuring the food of the labourer. I, in like manner, endeavoured to shew in my Essay on the Principle of Population that, under circumstances the most favourable to cultivation which could possibly be supposed to operate in the actual state of the earth, the real wages of the labourer would gradually become more scanty, and the progress of population be finally stopped by the increasing difficulty of procuring the means of subsistence. But Mr. Ricardo has not been satisfied with proving the position just stated. He has not been satisfied with shewing that the difficulty of procuring the food of the labourer is the only absolutely necessary cause of the fall of profits, in which I am ready fully and entirely to agree with him: but he has gone on to say, that there is no other cause of the fall of profits in the actual state of things that has any degree of permanence.* In this latter statement he appears to me to have fallen into precisely the same kind of error as I should have fallen into, if, after having shewn that the unrestricted power of population was beyond comparison greater than the power of the earth to produce food under the most favourable circumstances possible, I had allowed that population could not be redundant unless the powers of the earth to keep up with tire progress of population had been tried to tire uttermost. But I all along said, that population might be redundant, and greatly redundant, compared with tire demand for it nod the actual means of supporting it, although it might most properly be considered as deficient, and greatly deficient, compared with the extent of territory, and the powers of such territory to produce additional means of subsistence that, in such cases, note withstanding the acknowledged deficiency of population, and the obvious desirableness of having it greatly increased, it was useless and foolish directly to encourage the birth of more children, as the effect of such encouragement, without a demand for labors and the means of paying it properly, could only be increased misery tend mortality with little or no final increase of population.

[* By this expression I mean such a degree of permanence as to be called the ordinary rate of profits.]

Now the same kind of reasoning ought, I think, to be applied to the rate of profits and the progress of capital. 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 tied even the number of people; amt fully allowing at the same time the extreme desirableness of an increase of capital, I should say that, where the state of the demand for commodities was such as to afford much less than ordinary profits to the producer, still 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.]

What is wanted in both these cases, prior to the increase of capital and population, is an effectual demand for commodities, that is, a demand by those who are able and willing to pay an adequate price for them; and though high profits are not followed by an increase of capital, so certainly as high wages are by an increase of population, yet it will be found that they are so followed more generally than they appear to be, because, in many countries, profits are often thought to be high, owing to the high interest of money, when they are really low; and because, universally, risk in employing capital has precisely the same effect in diminishing the motive to accumulate and the reward of accumulation, as low profits. At the same time it will be allowed that determined extravagance, and a determined indisposition to save, may keep profits permanently high. The most powerful stimulants may, under peculiar circumstances, be resisted; yet still it will not cease to be true that the natural and legitimate encouragement to the increase of capital is that increase of the power and will to save which is held out by certain and steady profits; and under circumstances in any degree similar, such increase of power and will to save must almost always be accompanied by a proportionate increase of capital.

One of the most striking instances of the truth of this remark, and a further proof of a singular resemblance in the laws that regulate the increase of capital and of population, is to be found in the rapidity with which the loss of capital is recovered during a war which does not interrupt commerce. The loans to government convert capital into revenue, and increase demand at the same time that they at first diminish the means of supply.* The necessary consequence must be an increase of profits. This naturally increases both the power and the reward of accumulation; and if only the same habits of saving prevail among the capitalists as before, the recovery of the lost stock must be rapid, just for the same kind of reason that the recovery of population is so rapid after some great mortality.

[* Capital is withdrawn only from those employments where it can best be spared. It is hardly ever withdrawn from agriculture. Nothing is more common, as I have stated in the Chapter on Rent, than increased profits, not only without any capital being withdrawn from the land, but under a continual addition to it. Mr. Ricardo's assumption of constant prices would make it absolutely impossible to account theoretically for things as they are. If capital were considered as not within the pale of demand and supply, the very familiar event of the rapid recovery of capital would be quite inexplicable. The amount of capital employed on the land during the revolutionary war, was prodigiously increased owing to the great increase of profits; and although many merchants and manufacturers were occasionally subjected to great losses, yet the high rate of profits generally seemed more than to balance them; and there cannot be a doubt of the increase both of mercantile and manufacturing capitals."]

It is now fully acknowledged that it would be a gross error in the latter case, to imagine that, without the previous diminution of the population, the same rate of increase would still have taken place; because it is precisely the high wages occasioned by the demand for labour, which produce the effect of so rapid an increase of population. On the same principle it appears to me as gross an error to suppose that, without the previous loss of capital and an increased demand for produce occasioned by the expenditure in question, capital should be as rapidly accumulated; because it is precisely the high profits of stock occasioned by the demand for commodities, and the consequent demand for the means of producing them, which at once give the power and the will to accumulate.

Though it may be allowed therefore that the laws which regulate the increase of capital are not quite so distinct as those which regulate the increase of population, yet they are certainly just of the same kind; and it is equally vain, with a view to the permanent increase of wealth, to continue converting revenue into capital, when there is no adequate demand for the products of such capital, as to continue encouraging marriage and the birth of children without a demand for labour and an increase of the funds for its maintenance.

