Donald Winch

Classical Political Economy

At the end of the nineteenth century economists -- especially those living in the Anglo-American world -- decided to abandon the older term "political economy" in favour of "economics" or "economic science". An interesting story surrounds this change of name which some of you may wish to pursue by taking one of the special topics that concerns the professionalization of the social sciences in the late nineteenth and early twentieth centuries. But political economy has proved resilient; and a number of groups still prefer it as a way of describing what they do. Thus political economy is often a code-word to describe Marxian approaches to current economic problems, where the implication is that those who adopt this perspective wish to be more overtly political by separating themselves from what they regard as the false claims to scientific objectivity contained in modern economics. Mrs Thatcher, at the other end of the spectrum, agreed with Marxists in this: she also preferred the down-to-earth practicality of political economy to what she saw as the barren abstractions of academic economics.

But my aim in this lecture is to return to the original usage of political economy by those, mainly English, writers in the first half of the nineteenth century who built a new science on the foundations laid by Adam Smith in his *Wealth of Nations*. For the most part I shall be concerned with the work of Robert Malthus and his friend and rival David Ricardo, though classical political economy can also be used to describe the economic writings of two other major figures in the history of the social sciences, John Stuart Mill and Karl Marx. Despite the fact that both Mill and, more especially, Marx thought of themselves as critics of some ideas associated with Smith, Malthus, and Ricardo, they had far more in common with these predecessors than they had with late nineteenth- and twentieth-century economics. Why this should be so, however, is too large a subject to cover in this lecture.

Considered solely from an economic point of view, the *Wealth of Nations* was addressed to the causes underlying comparative rates of growth considered over long periods of time
that could be measured in centuries rather than decades. The central problem that interested Smith speaking as a political economist was the conditions under which it was possible for an economy to experience for sustained periods a rising per capita output of goods and an associated rise in per capita real incomes, where the gains would go to all, though not necessarily in equal proportions.

The experience of such a phenomenon in the middle of the eighteenth century was not common; it was only being glimpsed as a possibility. Smith would argue that England, and perhaps only in England, was it possible to look back on a lengthy period of slow and uneven growth in per capita real incomes for the mass of society. And even in England, for many of the poorest sections of society, the evidence was not sufficiently marked to be self-evident. Looking North to Scotland, the signs of growth were of much more recent origin and confined to the Scottish Lowlands. Across Europe, even in France, the only comparably rich society, the bulk of economic life was not merely agrarian in character (which was also true of England) but the methods of production were dominated by feudal forms of land tenure and peasant cultivation that had not changed much for many centuries. Another wealthy country, Holland, whose prosperity had been founded on international trade and finance, was already in decline. It seemed to be following the cyclical process of rise and fall experienced by Carthage or Venice.

Looking further afield, in China and India, there was evidence of societies that were, in Smith's terms, stationary or declining. Balancing such examples at the other extreme was the experience of Britain's North American colonies, which even by 1776 struck Smith as advancing so rapidly under peculiarly favourable conditions that they were likely to be wealthier than Britain within the next fifty or a hundred years -- one of Smith's few long term predictions, but one that proved remarkably accurate.

Precisely because the actual historical experience of sustained growth seemed to be so patchy, it may be best to describe the Wealth of Nations as a work devoted to comparative development economics rather than comparative growth economics, with differing developed economies advancing at different rates -- the kind of thing we observe today when comparing
the growth rates of developed economies such as those of Britain, Germany, Japan and the United States.

As I indicated in an earlier lecture on Smith, he was one of the first to see economic development as a self-sustaining dynamic process involving the interaction between expanding markets, rising productivity of the labour force through technology and the division of labour, and reinvestment of the social surplus through capital accumulation. Compared with the later versions of this model put forward by some of his successors, one can say that Smith's version of this theory of growth was relatively hitchless and optimistic, but it was optimistic only because its expectations were modest. He was not imagining the kinds of dramatic transformations through technology that were later associated with the English and other industrial revolutions, or the economic miracles we think of when speaking of Germany or Japan in the post-1945 period. In fact, it would be wrong to think of Smith as talking about industrial society as opposed to commercial society -- a society in which agriculture and domestic manufacturing were being improved through specialisation and the expansion of a set of interdependent markets.

Provided that the conditions of legal and political security were maintained; provided that civil and international wars did not interrupt the process; provided that monopolies and special privileges were curbed or no new ones created; provided that governments were not too profligate, there was little in the economic process itself to prevent growth being continuous. In other words, according to Smith, any limitations on the rate of growth were more likely to be political and institutional than inherent in the economic process itself. This did not mean, of course, that all nations were capable of growing at the same rates: population, access to cheap natural resources could make a major difference, as the example of the North American colonies showed. The Chinese case pointed up other lessons: for here was a society that supported what, by European standards, was a huge population based on high birth and death rates. But the population lived at bare subsistence levels that were lower than anything observable in Europe, despite the fact that almost the entire economic activity of the Chinese population was devoted to raising food. Indeed, Smith and later political economists such as
Malthus were to show that it was precisely the inability of China to break out of the circle of high birth rates and low productivity in agriculture that made it impossible for her to diversify her economic life and attain a positive rate of growth.

Thus one message that could be derived from the *Wealth of Nations* was that the emerging forms of commercial society in Western Europe and North America had the capacity to do what no earlier economic systems had done, namely generate a continuous rise in the absolute if not relative living standards for the mass of society. Unlike some later political economists, notably Marx, Smith did not engage in long-term predictions concerning the fate of commercial societies. But if he had done so along the lines I have just suggested, he would have proved to be fairly accurate: apart from major disruptions connected with wars, there has been a more or less continuous rise in living standards in these countries, judged by the macroeconomic aggregates, though it was sometimes more dramatic and more punctuated by cyclical and other disturbances than he seemed to imply.

This provides me with my first generalisation about Smith's immediate successors, Malthus and Ricardo. While they were content on many subjects simply to refine and update Smith's ideas, their work was dominated by one major new problem or idea: the idea of possible economic limits on the growth process arising from the capacity of population growth to exceed the capacity to increase food supplies. This indeed is merely a statement of what Malthus called the population principle, which he dramatized by positing that while population was capable of increasing according to a geometric ratio, the best that could be hoped for food production was that it would increase arithmetically. He did not need to commit himself to such a precise formulation: his conclusions would have stood, even if he had simply stated that the rate of growth of population was greater than that of food production.

Another version of this idea can be expressed in terms of the law of diminishing returns to agriculture and all land-based economic resources: in its dynamic form this law simply states that additional doses of labour and capital combined to a fixed factor, namely land, will eventually yield diminishing returns at the margin. An even simpler way of putting this is to
say that improvements in agricultural technology will either be too sporadic and unreliable, or too weak to overcome the underlying tendency towards diminishing returns.

This kind of economy has usefully been described as an organic economy (by E. A. Wrigley). It is one in which all food and most energy sources derive from the earth, including wood for fuel and building and fodder for draught animals. Within such an economy, there is an economic limit posed by the fixity of land and the difficulty in improving the yield of land through the use of organic fertilizers, bearing in mind that the animals that provide energy, transport and fertilizers compete with their human keepers in consuming the product of land, namely grass. What Malthus and Ricardo stressed, therefore, was the possibility of a bottleneck on growth in these organic land-using activities. It suggested the possibility that the chief wage-good, food, would cost more to produce over time and that food prices would rise. Smith's assumption that the benefits of growth would be expressed in higher real wages might, therefore, be falsified. A mixture of rapid population increase and rising production costs in agriculture could keep real wages down to whatever cultural subsistence level represented the minimum for any given community, where subsistence was defined as whatever was needed to support a family living on wages. The population-wage relationship need not be a beneficial one.

Much of what Malthus and Ricardo wrote on economic subjects was dominated by this issue and hence by their recommendations for dealing with the agricultural bottleneck. In this respect, their political economy continued to have an agrarian bias. For both of them the problem could only be solved by curbing the rate of increase in population, through delayed marriage or, possibly, in Ricardo's case, by the spread of birth control within marriage. The solution might also involve the controversial proposal by Malthus that the Poor Laws should gradually be abolished: the right to relief under the old Poor Law held out a promise that could not be fulfilled, and it simultaneously lowered wages and encouraged early marriage.

For Ricardo and his orthodox followers, dealing with the agricultural bottleneck also entailed the gradual elimination of the Corn Laws which gave protection to British agriculture: free trade in foodstuffs was to be the way in which Britain could break free of the
law of diminishing returns to domestic food. By concentrating her resources in manufacturing Britain would feed her growing population in her factories, by exporting the goods that would pay for imported food and raw materials. Malthus was not convinced that this was the best course of action because he was more attached to the idea of secure domestic supplies of food, slower rates of growth and transition, and less enamoured by the prospect of a Britain in which larger parts of the population were reliant on urban manufacturing activities.

Judged by what actually happened in Britain during the nineteenth and twentieth centuries, Ricardo proved more accurate than his friend. The unbalanced growth path, involving a shift of resources from agriculture to manufacturing, compensated by growing foreign trade, was the course pursued by Britain, particularly after the Corn Laws were eventually abolished in 1846. Nevertheless, both Malthus and Ricardo have proved to be technological pessimists so far as food production and organic supplies of fuel were concerned: Britain was able to find mineral substitutes for the products of land, chiefly in the form of coal and the substitution of non-human, non-animal sources of power: typified by the steam engine. We also know that agriculture was no more subject to diminishing returns than any other activity: we are actually suffering, in some parts of the world at least, from an excess capacity to produce food, with food mountains as a consequence.

One direct corollary drawn from the idea that land is the fixed factor of production, and that agriculture will be subject to diminishing returns, is the law of rent -- a law which Malthus and Ricardo discovered simultaneously. It implied that rents would be high and rising whenever the costs and prices of foodstuffs were high and rising. Any economy in which capital was accumulating and population was rising, and where that economy relied on domestic food production (keeping out cheaper foreign food imports), would find that the share of national income going to landowners in the form of rent would rise. The owners of land would have to be paid larger sums in the form of rent for the use of this increasingly scarce resource. In this respect the return to landowners was fundamentally different from the return to wage-earners or capitalists receiving profits and using them to reinvest. Much of the distinctiveness of classical political economy after Smith derives from this discovery.
of the laws of rent, and the belief that separate but interconnecting laws were required to explain how national income would be divided between the three main economic classes in the form of rents, profits, and wages.

Ricardo's *Principles of Political Economy* (1817) made this problem central, as can be seen from the opening paragraphs of his work that are reproduced on the handout. He produced a deductive model designed to explain what was likely to happen to the shares going to wages, profits and rent in the course of economic growth -- with rents rising, the benefits of rising money wages being cancelled out by rising food prices, and with profits, the source and motive for capital accumulation being reduced to a minimum which gave no incentive for taking on risks. This was the gloomy scenario ending up in a stationary state. But the purpose of the model was to underline a more optimistic scenario if Ricardo's policy options were endorsed by government.

Ricardo's model is famous partly for its deductive qualities -- the use of strong simplifying assumptions and logic to deduce conclusions in a manner reminiscent of modern mathematical economics -- and partly for its striking policy conclusions. The deductive form of Ricardo's growth model meant that the laws he articulated were, like Malthus's population principle, universal in scope. The laws of rent, wages and profits were equally applicable to all societies, almost regardless of differences in the level of wealth or the institutional setting -- I say, almost, because even Ricardo recognized that many less developed countries did not possess the minimal conditions to entertain the possibility of growth.

I have already mentioned one immediate application of Ricardo's model to British policies, namely to support the case for abandoning agricultural protection, the Corn Laws. Ricardo suggested that a bottleneck on further growth would be removed: profits would not be squeezed, and capital accumulation would not be inhibited. But another equally important application of the rent doctrine was made by James and John Stuart Mill to Indian land revenue questions. To understand this application, however, I need to say a little more about how Ricardo's theory of rent was sustained.
Like any deductive theory, Ricardo's model can be attacked by questioning its initial assumptions. For example, you could query the assumptions that the best land always brought into use before less fertile land had to be resorted to. What might be true of an established country like Britain, seemed less true in and expanding America. Was it true, as Ricardo assumed, that at any moment of time there were plots of marginal land that were too infertile to earn any rent? In other words, did the famous no-rent margin actually exist or was it merely a convenient simplification that had no counterpart in observable reality? As I have already indicated, you could also question the entire assumption about agriculture being subject to diminishing returns.

But what may seem to be the most vulnerable feature of Ricardo's theory is its dependence on a peculiar institutional feature of English agricultural conditions. It was only in England and some parts of Scotland that peasant cultivation had virtually disappeared by the beginning of the nineteenth century. The typical English situation was one in which landownership and farming were carried out by different classes of people, with capitalist farmers paying rent to landowners for the use of land, wages to landless workers for their services, and receiving a profit on capital as their form of income. How could a theory of rent based on these circumstances be applied to peasant forms agriculture, where rent, profits and wages accrued to the same person? How could you apply the theory to Irish conditions? What sense did it make when applied to India, where property in land might be held in common by villagers?

All such questions were raised at the time, and they were by no means idle speculative questions because Britain ruled both Ireland and India and therefore had to reach important conclusions about what forms of agricultural production should be encouraged, what forms of taxation should be levied. Indeed, in the case of India, one of Ricardo's closest friends and disciples, James Mill, was the senior civil servant in charge of economic affairs -- a role in which he was followed by his more famous son, John Stuart Mill. If you are interested in seeing how Ricardo's rents were applied to the Indian situation you will have to consult some of the work on the reading list. For my present purposes, however, all I need say is that
Ricardians were not unduly concerned about the differences in institutional circumstances. The fact that under Indian circumstances some peasants earned incomes which involved a combination of rent, wages and profits, whereas in England these tended to be received by different classes of person, made little difference to the theory and its application. It was still the duty of the political economist to analyze the separate elements in the income of peasants, and to show that they had separate origins and consequences. The most important of these consequences was that whereas a tax on wages and profits would raise costs, a tax on rent had no such effect. Pure rent could be taken away by the state as a source of tax revenue without making any difference to methods or the level of cultivation justified by market conditions.

Ricardian political economy could, therefore, be used as a means of attacking the landed or rent-receiving classes; he had formulated a case for taxing the unearned element, or monopoly return in rent, and to reveal that agricultural protection benefitted one class at the expense of wage-earners and profit-receivers. In stressing the practical application of Ricardo's laws, I have encouraged such a reading of their significance. None of the political economists of this period were academic economists in the purist sense, anxious simply to articulate theories for their own sake for professional recognition by fellow-economists. Political economy was cultivated because it promised to provide explanations which were vital to deciding what kinds of policies and institutions were best suited to produce results that would benefit the majority of the population in the short and long run. This is still the main motivation behind modern economics, though you could be forgiven for thinking otherwise on the basis of a reading of many professional journals devoted to economic theory.

But it would be wrong to leave you with the impression that the only significance attached to classical political economy lay in its policy recommendations, on which, as in today's world, there was always room for legitimate differences of opinion. Nevertheless, only the most superficial ideological readings of political economy would come to the conclusion that intellectual curiosity and differences of opinion based on theory played no part. The theories of rent, wages, profits and value advanced and argued over were put forward in a genuine
spirit of scientific inquiry -- in a search for scientific truth about the causes and consequences of economic growth.

Since this is not a course devoted to the history of economic theory, I cannot illustrate this further, but anyone who doubts the conclusion is advised to read Ricardo's first chapter on the theory of value and to consider why modern textbooks still contain elements of classical theorising with respect to such matters as rent and comparative advantage. Even Marx, who invented his theory of ideology very much with what he called bourgeois political economy in mind, exempted Ricardo from his strictures by treating him as a genuine exponent of the scientific spirit. It was necessary for Marx to do so, I would add, because it enabled him to make use of many of Ricardo's insights when formulating what Marx regarded as a socialistic alternative version of the science of political economy.

Marx and his followers were not willing to extend the same tolerance and understanding to Malthus. In this respect they joined a large chorus of critics. The implications of the population principle -- as the critics understood it at least -- were either to undermine traditional paternalist assumptions about the poor, or, in the eyes of reformers and socialists, far too damaging to any future reorganisation of society. Socialists and other reformers, whether on the left or right of the political spectrum, considered that Malthus had presented a vision in which population pressure would always cheat humanity of any short-term improvements in living standards. Malthus seemed to have invoked a bio-technological law of nature to crush any hope of permanent human improvement.

This is still a common interpretation of Malthus; and it began during Malthus's lifetime. Thus it was largely with the Malthusian theory in mind that Thomas Carlyle christened political economy the "dismal" science. Perhaps I do not need to labour this point because we still use the term "Malthusian" to describe pessimistic scenarios in which rates of population increase exceed the capacity to support the increase, where what happens in some African countries on a regular or sporadic basis can be taken as a striking illustration. We also now sometimes use the term Malthusian to describe some ecological projections which emphasise the likelihood of disaster if our demands on the ecosphere continue to rise more rapidly than
its capacity to cope with those demands, where part of this demand stems from population increase. In this respect perhaps we are more willing to recognise that biology, including the biology of human reproduction, cannot be excluded from the social sciences, whatever we may feel about the excesses of some versions of what is called socio-biology.

There can also be no doubt that in emphasising the dilemma posed by potential population pressure Malthus was casting doubt on some views on human perfectibility and indefinite social progress that were popular during and immediately after the French Revolution. This was part of the polemical background to the publication of the first edition of the *Essay on Population* in 1798. Moreover, since the prevailing conventional wisdom on the subject of population continued to preach that a high and rising population was always a military and economic advantage to any nation, Malthus felt that he had to attack such complacency by bringing home the darker prospects posed by the population principle. Nevertheless, it would be quite wrong to see Malthus as an enemy to all growth in population, and as offering no hope that population and rising standards of living could be achieved. He is much more accurately interpreted as an exponent of the theory of *optimal* population growth -- a proposition which he expressed in terms of Aesop's fable of the hare and the tortoise. If the hare of population growth could be slowed down enough to enable the tortoise of food production to keep up, and if through continuing population restraint the hare could be kept in step with, or a little behind, the tortoise, Malthus accepted that population increase and rising living standards could be made compatible.

Only those who would categorically deny that population increase ever constitutes a problem, that poverty, disease, famine, low wages and high pre-adolescent mortality rates are never associated with rising population, can afford to dismiss Malthus out of hand. Yet, strangely enough, that does not mean that Malthus was accurate in his predictions concerning the outcome of change in countries like Britain in the nineteenth century. Western countries escaped the Malthusian trap during the nineteenth century partly because birth control of various kinds did spread to the population at large, and partly because it proved, as I have said earlier, to be possible to employ technology to widen or remove the agricultural bottleneck.
Once having gone through the process known as demographic transition, wage-earners began to reduce the size of their families in the interests of protecting higher living standards. This was something that Ricardo and Malthus hoped for, but they did not feel able to build into their assumptions.

As we see nightly on our television screens, many pre-industrial nations have yet to undergo the demographic transition and have yet to become invulnerable to famine. Such nations are not to be found solely in Africa, as events in Russia this winter may yet again prove. I am not saying that such situations can be analysed simply by recourse to the Malthusian population theory; they are more complex than that. What I am maintaining is that a Malthusian dimension has to be brought into the picture somewhere, especially when dealing with preindustrial nations or those that have yet to solve their basic food problem. Not long after Malthus's death in 1834, during the famine that took place in Ireland in 1845-6, there was a terrifying example of what could happen to a population that had grown rapidly, lacked commercial and industrial alternatives to agriculture, and was dependent on one crop, the potato.

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In closing this lecture, I should like to make some comments on the significance of classical political economy to the history of the social sciences during the nineteenth century. Although the new science retained close philosophical and political connections with broader streams of thinking in Britain at this time, notably with utilitarianism in Benthamite and other guises, Ricardo's work signalled a move towards a narrower, more autonomous science devoted solely to economic phenomena in developed economies. The simple psychology of rational economic man and the assumption that competitive markets had taken over from custom as the main force at work in modern economies provided the grounds for cultivating this autonomous science. Furthermore, the association of the science with Britain's economic success added to its prestige as leading example of what could be achieved by adopting naturalistic methods in the social sciences.
John Stuart Mill, whose early education included large elements of Malthusian and Ricardian political economy, yet became aware of its shortcomings, along with those of Benthamism generally, later in life, could not agree with Auguste Comte that political economy should be reabsorbed into sociology. Nor could he share the view of the socialist critics of political economy that their vision had to be founded on a rejection of political economy. Mill did not believe that its value as a deductively-based inquiry into a range of questions that was still vital in understanding life in modern economic societies was yet exhausted. This preference explains what might otherwise be puzzling: thus despite the fact that Mill's priorities lay more in exploring alternative property systems, socialism, and other social experiments that would not have been thought of as part of Ricardo's political economy, his *Principles of Political Economy* (1848) succeeded in keeping alive the tradition of classical political economy for another generation or two. Mill was not willing to perform the same services for other types of social inquiry associated with Benthamism: on the politics of representative government, he abandoned many ideas, both theoretical and practical, which his father and Bentham had preached.

Mill answered many of the critics of political economy who disliked its claims to universal application. He acknowledged that it was chiefly applicable to societies in which competitive markets and the economic calculation of self-interest were already a dominant feature of social arrangements. Nevertheless, he was not willing to abandon the deductive method upon which it was based.

For reasons connected with his own materialist interpretation of world history, Karl Marx's political economy also placed great emphasis on the priority of understanding economic forces in any inquiry into society. Its laws, as reformulated by Marx as the foundation for a scientific form of socialist understanding of the world, provided the fundamental clue to most social and political developments. As a summary statement then, one could say that political economy, as founded by Smith, became the first of the modern social sciences to emerge as a specialist branch of inquiry -- a status that it has largely retained to the present day. This status was questioned on various grounds during the nineteenth
century, chiefly by those who wished to refocus social inquiry in a sociological direction. But as the cases of Durkheim and Weber show, in their writings on the division of labour and the origins of modern capitalism, the economic factor in society continued to dominate even those who did not believe it was the sole dimension requiring attention.