

## Keynes's Criticisms of Malthus, and 'Malthus's Reply': the Concept of Effective Supply

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In his essay entitled 'Robert Malthus. The First of the Cambridge Economists', J.M. Keynes said of Malthus:

If only Malthus, instead of Ricardo, had been the parent stem from which nineteenth-century economics proceeded, what a much wiser and richer place the world would be to-day! (Keynes 1961 [1933], p. 120)

Surely no higher tribute has ever been paid, or could ever be paid, by one economist to another. Of how many economists of the past can it be truly said that, if they had been listened to, they would have made the world 'a much wiser and richer place'? And of how many economists of the present will it be true that they also have made the world 'a much wiser and richer place'?

But Keynes's eulogy of Malthus was tempered by two major criticisms. Firstly, he criticised Malthus for ignoring the part played by the rate of interest:

Malthus's defect lay in his overlooking entirely the part played by the rate of interest. Twenty years ago I should have retorted to Malthus that the state of affairs he envisages could not occur unless the rate of interest had first fallen to zero. Malthus perceived, as often, what was true; but it is essential to a complete comprehension of why it is true, to explain how an excess of frugality does not bring with it a decline to zero in the rate of interest. (Keynes 1961 [1933], p. 123)

Secondly, Keynes accused Malthus of being unable to provide an adequate *theory* of effective demand:

Malthus, indeed, had vehemently opposed Ricardo's doctrine that it was impossible for effective demand to be deficient; but vainly. For, since Malthus was unable to explain clearly (apart from an appeal to the facts of common observation) how and why effective demand could be deficient or excessive, he failed to furnish an alternative construction; and Ricardo conquered England as completely as the Holy Inquisition conquered Spain. (Keynes 1973 [1936], p. 32)

Many commentators have explored the relationship between Malthus and Keynes and attempted to assess the extent to which Keynes was influenced by Malthus. In doing so they usually refer to Keynes's *praise* of Malthus and assess its validity. However, relatively few commentators have explicitly discussed and analysed Keynes's *criticisms* of Malthus; and, of those, even fewer have attempted to assess their validity, or to defend Malthus<sup>1</sup> against them, even though they were made over sixty years ago.

The aim of this paper is to assess the validity of Keynes's two criticisms, and to suggest the reply that Malthus might have made to them. In doing so emphasis is given to several concepts that played an important role in Malthus's methodology – including his concept of counterbalancing causation, his distinction between means and motives (or between power and will), and in particular his concept of effective supply, which seems to have been neglected in the literature

because of the emphasis given (correctly) to his pre-Keynesian concept of effective demand.

In what was perhaps the earliest attempt to provide an explicit analysis of the influence of Malthus on Keynes, O'Leary (1942) concluded that

There can be little doubt that Keynes was influenced by Malthus, but it is impossible to say to what extent. It does appear, however, that there is more of Malthus in Keynes's *General Theory* than Keynes himself has realized. ... Not only has he anticipated much of Keynes's general theory, but it is evident that Keynes has been influenced by some of Malthus's ideas. ... It seems certain, therefore, that Malthus deserves first rank as a forerunner of Keynes. (p. 919)

O'Leary noted Keynes's two main criticisms of Malthus, quoted above, but did not respond to them, apart from describing them as 'disappointingly casual' and as evidence that Keynes 'dismissed the importance of Malthus's contribution' (p. 918). The fact that O'Leary did not attempt to defend Malthus against these two criticisms suggests that he accepted them as valid. His only reaction to the criticisms was that, in the light of the many links he had perceived between Malthus and Keynes, the latter's criticisms had been ungenerously dismissive.

In another major tribute to Malthus, Keynes said that 'the almost total obliteration of Malthus's line of approach and the complete domination of Ricardo's for a period of a hundred years has been a disaster to the progress of economics' (Keynes 1961 [1933], p. 117). B.A. Corry (1959) disagreed, arguing that the 'attempt to set up Malthus as a forerunner of Keynes is of doubtful validity. ... There appears to be little in the Malthusian analysis which bears affinity to the model of the *General Theory*' (pp. 718, 724). Corry did not quote or explicitly consider Keynes's two criticisms of Malthus, but in his concluding remarks there is an implicit agreement with Keynes's second criticism that 'Malthus failed to furnish an alternative construction'. Malthus

was aware that full employment was not the norm – but it cannot be said that his analysis provides an explanation of this phenomenon ... But a vague feeling that something is wrong does not justify the overthrow of a particular analytic framework. When a particular theory has been falsified it must be replaced with another theory, but Malthus did not do this, he did not break through the inner logic of classical macro-economics. (Corry 1959, p. 724, adding in a footnote that 'this breakthrough was Keynes's greatest achievement')

Keynes's praise for Malthus was given in spite of his criticism of Malthus. Corry has agreed with the criticism but not the praise.

Lambert (1962) adopted independently a position similar to that of O'Leary on the relationship between Malthus and Keynes, concluding that there is more of Malthus in the *General Theory* than Keynes said or believed (p. 829). Lambert quoted Keynes's two criticisms of Malthus, and appears to have supported Keynes on the first and disagreed with him on the second. On the first, he agreed that the absence of a theory of interest is one of the weaknesses of Malthus's system.<sup>2</sup> Lambert also noted that Say had made a criticism similar to that later made by Keynes – viz. that an excess of savings would remedy itself, because of a consequent fall in the rate of interest – but that Malthus had not responded. Lambert, quoting Keynes's first criticism, considered that Keynes had effectively replied to Say and in doing so had highlighted one of the weaknesses of Malthus (Lambert 1962, p. 824).

However, on Keynes's second criticism (quoted Lambert 1962, p. 826), Lambert agreed with O'Leary that Keynes's remarks were '*décevantes*'. He objected to Keynes's parenthetical statement that Malthus's view that effective demand could be deficient was merely 'an appeal to the facts of common observation', and argued that although Malthus's theory was imperfect, in places obscure, and sometimes even contradictory, it was extremely rich in new and true principles, adding that it was by means of argument, not by an appeal to facts, that Malthus had reduced Say's argument to a tautology and defeated him.<sup>3</sup>

Rutherford (1987) asks 'whether Malthus deserved the accolades Keynes bestowed upon him', and concludes that when Malthus's analysis is compared with Keynes's *Treatise on Money* (rather than with his *General Theory*), 'a close correspondence can be discerned' (p. 188), but does not extend his comparison to include a discussion of Keynes's criticisms of Malthus.

More recently, the question of the Malthus-Keynes link has been taken up by Hollander (1997).<sup>4</sup> He appears to argue that Keynes's praise of Malthus was unwarranted or excessive. For example, whereas Keynes praised Malthus for his inductivism and criticised the deductivism of Ricardo, Hollander believes that their methodologies were not sharply differentiated (pp. 7-10). However, although Hollander quotes Keynes's two criticisms of Malthus, he does not *explicitly* state whether or not he thinks they are justified. *Implicitly*, the reader is given the impression that Hollander supports the criticisms. His general theme is that the Malthus-Keynes link is 'not convincing' (p. 1005). If the criticisms are valid, the link is further weakened.

A further indication of the lack of attention given in the secondary literature to Keynes's criticisms of Malthus is the fact that Hollander's treatment of Malthus's economics – the most comprehensive ever to have been published – does not specifically address the issue. The index to Hollander 1997 lists five references to Malthus on interest – dealing with the effect of an increase in the note issue and an increase in the national debt on the rate of interest, and with the question of whether wages, profit and interest move in the same or opposite direction (pp. 164-5, 668, 744, 776) – but does not attempt to interpret Malthus's views on the general determinants of the rate of interest, or to question Keynes's charge that Malthus failed to show that interest would not play an automatic equilibrating role in economic fluctuations.

It is stressed that the following attempt to assess the validity of Keynes's two criticisms is an exercise in conjectural history. It is an attempt to defend Malthus against Keynes by asking what Malthus might have replied had he been confronted by criticisms of the kind levelled by Keynes. To the best of my knowledge, Malthus either was not confronted by such criticisms, or did not leave a written response to them. Keynes himself was presumably unaware of any textual material that would have constituted relevant responses to his criticisms.

The argument could be described as an exercise in Post Malthusian Economics. It proceeds by identifying a number of textually-justified concepts and principles, and then applying them to the two criticisms raised by Keynes. These *applications*, as distinct from the textually-based concepts and principles, are not and cannot therefore be textually-based, and the conclusions cannot logically be expressed in language stronger than that of possibilities and probabilities.

However, although the paper attempts to mount a strong defence of Malthus against Keynes's two criticisms, it should not be interpreted as an exercise in hagiography. On the contrary, the fact that Malthus's theory of interest and

theory of effective demand were left in a state requiring further clarification, and that he did not foresee the criticisms that might be levelled against them, must be acknowledged as a theoretical deficiency.

### The First Criticism

In the first criticism Keynes appears to have implied that, according to Malthus, interest will fall as saving ('frugality') increases – a theory that could roughly be described as a loanable funds theory of interest; and that a zero or low rate of interest would stimulate the economy and return it to a state of full employment, thus obviating the need for Keynesian anti-cyclical policies of public works, budget deficits, and the socialisation of investment. But, as depressions in the past have not been characterised by a zero rate of interest, and have not automatically adjusted themselves to return to full employment, Keynes concluded that Malthus had failed to provide either an adequate theory of interest or an adequate explanation of depressions.

Was this criticism justified? It is true that Malthus did not provide an *explicit* theory of interest, but from his brief and scattered remarks we can reasonably establish the following four features of his views of interest:

- (1) Interest is distinct from profits. In both editions of the *Principles* the 'profits of capital' are defined as 'the difference between the value of the commodity produced, and the value of the advances necessary to product it'. In the first edition of the *Principles* he said that these advances consist of 'wages, profit and rent'; in the second edition, they were listed as 'wages, rents, taxes, interest and profits', thus implying that interest and profits are distinct entities (Malthus 1989b, I, pp. 293-4; II, p. 218). Also in both editions of the *Principles* he spoke of 'the interest of money' and 'the profits of stock' in the same context (Malthus 1989b, I, p. 13), thus again implying that he regarded them as distinct.
- (2) The rate of interest may or may not coincide with the rate of profit – thus reinforcing point (1) that interest and profits are distinct entities. He acknowledged that, in the period 1797-1817, profits were in proportion to interest; and the fact that public creditors had agreed to a reduced rate of interest on their securities rather than be paid off indicated that the rate of profit was also low (Malthus 1989b, I, p. 319). But he also argued that a high rate of interest cannot be taken as proof of a high rate of profit: 'in many countries ... profits are thought to be high, owing to the high interest of money, when they are really low' (Malthus 1989b, I, p. 373).
- (3) Interest is a monetary phenomenon, in the sense that it is a return on monetary capital. Thus in his *Definitions in Political Economy*, 1827, he defined 'the interest of money' as the 'net profits of a capital in money separated from the risk and trouble of employing it' (Malthus 1827, p. 241)<sup>5</sup> and in his *Essay on Population* he referred to the 'fair interest' on savings in savings banks (Malthus 1989a, II, p. 191).
- (4) Interest is paid on money capital that is lent or borrowed. This is evident when he referred to the 'difficulty of borrowing on mortgage' (Malthus 1989b, I, p. 319) and to interest on the national debt (Malthus 1989a, II, p. 72; 1989b, I, p. 484).<sup>6</sup>

It would therefore appear to be textually valid to say that if Malthus's brief, rudimentary and scattered remarks on interest are worthy of being elevated to the status of a theory, they would be classified as a loanable funds theory.

Despite the absence from Malthus's writings of a fully-articulated and *explicit* theory of interest, this paper advances the view that it is possible to find in his writings ideas that could be legitimately extrapolated to provide a defence against Keynes's criticism - ideas that Keynes either overlooked or did not consider relevant.

The first of these ideas is Malthus's distinction between potential and actual supply - or, to use an expression not used by Malthus, the concept of effective supply. It was a concept that Malthus referred to in only a few places, more or less in passing, and it was not explicitly used in the context of his (brief) remarks on interest; but nevertheless it would appear to assume considerable significance in that context. Malthus's concept of effective demand played a key role in Keynes's general theory, and its importance has been widely recognised. It will be argued in this paper that Malthus's concept of effective supply is as important as his concept of effective demand, and deserves equal recognition.

Malthus did not use the term 'effective supply', but the concept of effective supply, symmetrically juxtaposed to the concept of effective demand, is clearly evident in his writings. It can be seen in several alterations between the first and second editions of the *Principles of Political Economy* where Malthus makes use of the expressions 'in the market' and 'brought to market'. In one instance the 'supply' of the precious metals is altered in the second edition to their 'supply in the market' (Malthus 1989b, I, p. 57; II, pp. 38, 312). In another, the term 'produced' is altered to 'brought to market' (Malthus 1989b, I, p. 68; II, pp. 48, 321). In the same context the expression 'the quantity of the commodity which would be brought to market' (Malthus 1989b, I, p. 68) remains unchanged in the second edition. And elsewhere, the phrase 'and brought to market immediately' is added to the second edition (Malthus 1989b, I, p. 80; II, pp. 57, 327-8).

The use of the expressions 'in the market' and 'brought to market' suggests that Malthus was concerned to emphasise the distinction between supply in the sense of the physical existence or the amount produced of a commodity, and supply in the sense of the commodity offered for sale in a market; or, in other words, the distinction between the potential supply, and the actual or effective supply.<sup>7</sup> As far as I am aware, the secondary literature on Malthus has ignored the existence and importance of this notion of effective supply in Malthus's system.

If he had been confronted by Keynes's criticism that he had failed to explain why, given an excess of saving, a fall in interest rates does not provide a self-correcting mechanism for depressions, Malthus could conceivably have replied that in a depressed or declining economy an 'excess of frugality' would not necessarily lead to a fall in interest rates, because the increase in the supply of savings would not necessarily take the form of an *effective supply*; the excess savings would not necessarily be 'brought to market' in the form of an actual supply of funds being made available for direct or indirect investment. The result would be an accumulation of 'redundant capital'<sup>8</sup> or involuntary hoarding - i.e. loanable funds seeking investment but unable to find suitable investment outlets - where suitability is defined in terms of adequate levels of expected returns, ability to repay, risk of default, realisable collateral and capital security.

This 'redundant capital' could also be described as involuntary hoarding. Malthus recognised that voluntary or deliberate hoarding - i.e. saving without the

intention of investing – would be an exceptional occurrence.<sup>9</sup> He believed that in most instances intended saving would equal intended investment. But if, because of an inadequate level of effective demand, suitable investment outlets were not available, some of the savings that were intended for investment would remain uninvested and would accumulate as idle, redundant, involuntary hoarding. In other words, a situation would arise where actual or realised savings would exceed actual or realised investment.

This tendency for savings to accumulate as redundant capital, rather than to take the form of an effective supply of loan funds, would appear to be a logical consequence of the conditions prevailing in the loan-capital market. In a declining or depressed state of the economy there will be a decrease in the prospects of potential borrowers, and hence a decrease in the attractiveness of those borrowers to the holders of the loanable funds. The holders will be reluctant to lend to borrowers who have diminished prospects of servicing and repaying the loans. Hence, although there might be an increasing quantity of surplus savings in existence and potentially available for lending, that surplus will not necessarily take the form of an *effective supply*. It will not necessarily be actually offered in the market. Given the reduced loan-servicing capacities of the borrowers, it will therefore not result in downward pressure on the rate of interest. Some holders of loanable funds might be willing to make loans available at the ruling rate of interest, or even at a lower rate, despite the increased risk, arguing that a low and risky return is better than no return at all. But other holders of loanable funds either will not lend at all or will ask for a higher rate of interest to compensate for the increased risks. The actions of this latter category of lenders will reduce the supply of loanable funds ‘in the market’ and, by exerting upward pressure on interest rates, will tend to prevent ‘a decline to zero in the rate of interest’.

On the other hand, if as is likely, the lack of profit prospects discourages some borrowers from borrowing, there will also be a reduced *effective demand* for loanable funds, which will exert a demand-side downward pressure on interest rates. In other words, counteracting causation will be at work in the loanable funds market. There will be a *tendency* for the rate of interest to fall because of a reduced demand for loanable funds, but there will also be a counteracting *tendency* for the rate of interest to rise, because suppliers of loanable funds will be reluctant to advance loans to customers who are becoming less and less loan-worthy. As the net outcome of these counteracting tendencies will be theoretically indeterminate, there can be no theoretical certainty that the ‘excess of frugality’ will ‘bring with it a decline to zero in the rate of interest’.

Keynes asked of Malthus: given the ‘excess of frugality’, why are interest rates not very low or zero in times of economic depression? But, if the distinction between the *physical* supply of savings and the *effective* supply of savings is accepted, he might well have asked: why are interest rates not very high? That would occur if the upward pressure on interest rates exerted by a decrease in the effective supply of loanable funds greatly exceeds the downward pressure exerted by a decrease in the effective demand for loanable funds.

Another defence against Keynes’s criticism could be erected on the basis of Malthus’s distinction between power and will, or between means and motives - a distinction that appeared frequently throughout his writings.<sup>10</sup> In a situation of depressed economic activity, if the holders of surplus loanable funds actually supply their funds to borrowers, the rate of interest will tend to fall, perhaps even to zero, as Keynes argued. But, confronted by Keynes’s criticism, Malthus would

surely have replied that even if the holders of loanable funds have the power or the means to lend, in a state of economic depression they would lack the will or the motive to lend, because they can see that the potential borrowers, even if they have a strong desire to borrow, lack adequate prospects of servicing and repaying the loan or of offering secure collateral. The holders are understandably reluctant to accept the increased risk of default on interest and repayment.

The distinction between power and will is also relevant on the demand side. While the holders of loanable funds have the power but not the will to lend, the potential demanders of loanable funds have the desire or the will to borrow, but, because of their failing profit prospects, lack the power or the means to persuade lenders to lend.<sup>11</sup> The deficient *will* of the suppliers to convert the excess of loanable funds into an *effective* supply, and the deficient *power* of the demanders to present suppliers with an *effective* demand, combine to render the outcome unpredictable at the theoretical level, and again to remove any theoretical certainty that an 'excess of frugality' will 'bring with it a decline to zero in the rate of interest'.

As a further defence of Malthus, it could also be argued that, even if the rate of interest does fall, the system provides no guarantee of self-correction. The availability of a plentiful supply of loan capital at a low rate of interest (or even a zero rate of interest) will *tend* to stimulate recovery from a depression, but will *not necessarily* effect recovery. It will do so only if it succeeds in restoring an acceptable production-inducing balance between expected revenue and costs. A reduction in the rate of interest might fail to restore this balance because, even if the interest rate falls to a very low level or to zero, and even if the fall in the interest rate is accompanied by falls in wages and other costs, corresponding falls might be occurring at the same time in sales and revenue, with the result that a production-inducing balance between revenue and costs fails to eventuate. A decline in the rate of interest will not necessarily by itself stimulate recovery, because it could be offset by a depressing decline of proportionate magnitude in expected revenue.

In a debate with Keynes on the question of the effect of a reduction in interest rates on economic recovery, Malthus would surely have invoked the notion of counterbalancing causation – a notion that figured frequently in his analysis of the causes of economic growth.<sup>12</sup> By contrast with Ricardo's preference for mono-causal relationships, Malthus invariably stressed the existence of a plurality of causes, sometimes acting in conjunction, but often conflicting. It would be totally consistent with Malthus's habitual methodology to argue that, even if interest rates did fall to zero, there would be no guarantee of an automatic recovery from depression. Recovery would occur only when the negative pressure exerted by the decline in demand begins to be offset by the countervailing positive pressure exerted by the decline in interest rates (and other costs).

Keynes's response to the idea of a self-adjusting, interest-led recovery, and his attempt to remedy the alleged defect in Malthus's theory, took the form of his liquidity or monetary theory of interest, according to which the rate of interest is determined not by the demand for and supply of loanable funds, but by the demand to hold money and the supply of money.<sup>13</sup> According to this liquidity theory, the demand to hold money will increase in a depression - because, as prices in general fall, the real value of money rises - and hence the rate of interest will not fall to a level which will automatically generate recovery.

But the application of the above three important elements of Malthus's methodology - viz. the concept of effective supply, the distinction between power

and will, and the notion of counterbalancing causation - would appear to provide an adequate defence against Keynes's first criticism. The two elements of his criticism were (1) the failure of interest rates to fall to zero in a depression, and (2) the failure of the economy to correct itself automatically in response to the fall in interest rates. Both appear to be answerable within the framework of Malthus's system, and do not seem to require the introduction of a liquidity theory of interest.

It has been argued that Keynes's liquidity theory of interest is either identical to or a mirror image of the loanable funds theory of interest. Savings are either held as money or not held as money. If they are not held as money, they become loanable funds available for investment. Thus an increase in the demand for money to hold will mean a decrease in the supply of loanable funds in the market; the latter is a mirror image or a correlative of the former. A liquidity theory of interest that attributes a rise in interest rates to an increase in the demand for money to hold is therefore saying neither more nor less than a loanable funds theory of interest that attributes a rise in interest rates to a decrease in the supply of loanable funds. Both theories offer a theoretical explanation of why in a depression interest rates do not necessarily fall.

If that is correct, i.e. if Keynes's liquidity theory and Malthus's loanable funds theory are essentially the same, then Keynes's criticisms of Malthus on interest are further undermined. If Keynes's theory explains why interest rates do not fall to zero, then so does Malthus's.

There appears, however, to be an important difference. For Keynes, the increased desire to hold money as prices fall means a decreased desire to lend money and a decreased amount of money being made available for lending, thus exerting upward pressure on interest rates. For Malthus, falling prices lead to a decrease in the credit-worthiness of borrowers, and thus to a decrease in the willingness of owners of loanable capital to lend and a decrease in the effective supply of loan capital, i.e. the amount being made available for lending. In both theories, both the material cause and the final cause (i.e. the means and the motives) are affected in a way that prevents interest rates falling to zero. Their main difference appears to lie in their explanations of the motivations involved. For Keynes, the owners of loanable capital appear to be mainly motivated by a desire to ensure that their money assets increase in real value as prices fall. For Malthus, owners of loanable capital appear to be mainly motivated by a desire to avoid unsafe and unprofitable loans as prices fall.

## The Second Criticism

Turning now to the second of Keynes's criticisms of Malthus - viz. that Malthus was 'unable to explain clearly (apart from an appeal to the facts of common observation) how and why effective demand could be deficient or excessive', it seems to me that such a claim could only be based on a deficient appreciation of the macroeconomics contained in the long final chapter of Malthus's *Principles of Political Economy*, 1820.<sup>14</sup> In his essay on 'Robert Malthus' Keynes referred specifically to only two Sections, IX and X, of Chapter VII. He regarded Section IX as 'a masterly exposition of the conditions which determine the *optimum* of Saving in the actual economic system in which we live', and Section X as 'the best economic analysis ever written of the events of 1815-20' (Keynes 1961 [1933], p. 121). He apparently did not see in Chapter VII a clear theoretical explanation of how movements occur in the level of effective demand. But in my opinion Malthus

put forward in Chapter VII what amounts to a clear and very credible explanation of how and why effective demand changes.

In Chapter VII Malthus distinguished seven causes of economic growth. Four of these could be called production-side or supply-side causes. They are population (Section II); accumulation, or as we would now say, saving and investment (Section III); fertility of the soil (Section IV); and inventions (Section V). These four causes could be rearranged into the usual threefold classification of the factors of production, viz. land, or fertility of the soil; labour, or population; and capital, including savings (or financial capital) and technology (or physical capital and inventions). In Malthus's list of the four production-side causes there is thus nothing remarkable.<sup>15</sup>

It is when we turn to Malthus's other causes of economic growth that we encounter his innovative contributions. He listed three causes on the distribution side or the demand side, viz. distribution occasioned by the division of landed property (Section VII); distribution occasioned by commerce (Section VIII); and distribution occasioned by unproductive consumers (Section IX). The connection between distribution and effective demand, and the importance for economic growth of adequate (but not excessive<sup>16</sup>) distribution are constant themes throughout Malthus's *Principles*. For example:

Over almost all Europe a most unequal and vicious division of landed property was established during the feudal times ... A very large proprietor, surrounded by very poor peasants, presents a distribution of property most unfavourable to effective demand ... Thirty or forty proprietors, with incomes answering to between one thousand and five thousand a year, would create a much more effective demand for wheaten bread, good meat, and manufactured products, than a single proprietor possessing a hundred thousand a year. (Malthus 1989b, I, pp. 429-30)

Practically it has always been found that the excessive wealth of the few is in no respect equivalent, with regard to effective demand, to the more moderate wealth of the many. (Malthus 1989b, I, p. 431)

... experience shews us that manufacturing wealth is at once the consequence of a better distribution of property, and the cause of further improvements in such distribution, by the increase in the proportion of the middle classes of society, which the growth of manufacturing and mercantile capital cannot fail to create. (Malthus 1989b, I, p. 431)

... the powers of production, to whatever extent they may exist, are not alone sufficient to secure the creation of a proportionate degree of wealth. Something else seems to be necessary in order to call these powers fully into action; and this is, such a distribution of produce, and such an adaptation of this produce to the wants or those who are to consume it, as constantly to increase the exchangeable value of the whole mass. (Malthus 1989b, I, p. 413)

... the division of landed property is one of the great means of the distribution of wealth, which tends to keep up and increase its exchangeable value, and to encourage further production. (Malthus 1989b, I, p. 439)

But perhaps the most important section in Chapter VII of Malthus's *Principles* is Section VI, entitled 'Of the Necessity of a Union of the Powers of

Production with the Means of Distribution, in order to ensure a continued Increase of Wealth'. In this section he argued that distribution is not merely an effect that occurs after goods have been produced; it is also a cause of production, because without a proper distribution, insufficient effective demand will be generated and producers will not have a motive to produce.<sup>17</sup> As already stated, Malthus stressed frequently throughout his writings the importance of the distinction between the power to produce and the will to produce; or, in other words, the distinction between the means of producing and the motive to produce. An economy well-endowed with land, labour, and capital will have the power to produce, but unless producers are faced with an adequate effective demand from potential consumers, they will not have the will or the motive to produce. In Malthus's own words, 'there is certainly no indirect cause of production as powerful as consumption' (1989b, II, p. 34). Production will not occur unless there is an adequate effective demand (or a production-inducing balance between revenue and costs); but an adequate effective demand requires a proper distribution of income.

Malthus could therefore be interpreted as saying, although he did not employ this form of words, that distribution should be regarded as itself a cause or factor of production. The conventional listing of factors of production includes only supply-side factors that provide the means but not the motive to produce. But, for Malthus, the motive is just as important as the means; the final cause is just as important as the material cause. In Malthus's economics, the conventional listing of the factors of production would have to be expanded to include distribution. The textual evidence clearly indicates the close causal connections he perceived between distribution, consumption, effective demand, and production. It would therefore be a logically-justifiable extrapolation of his thought to conclude that he would reject the modern dichotomization of production and distribution, and would regard as utterly incomprehensible any listing of the factors of production that did not include distribution.

It seems to me that this analysis of the interrelationship between production and distribution, and this account of how distribution plays a key role in the process of economic growth, represent a very clear and credible explanation of the creation and destruction of effective demand. It is more than common sense or casual empiricism. It is far more sophisticated than a simple 'appeal to the facts of common experience'. It constitutes a very respectable contribution to the theory of effective demand, and one that is in effect an 'alternative construction' to the doctrine of Ricardo, despite Keynes's assertion to the contrary.<sup>18</sup>

In emphasising the different approaches of Malthus and Ricardo, Keynes said: 'Ricardo is investigating the theory of the *distribution* of the product in conditions of equilibrium, and Malthus is concerned with what determines the *volume* of output day by day in the real world' (Keynes 1961 [1933], pp. 115-16). This statement, taken independently of Keynes's other statements on the role of distribution in Malthus's economics, might be interpreted as meaning that Ricardo was concerned with distribution, and Malthus with production, not distribution. But nothing would be further from the truth; it is obvious that for Malthus a proper distribution is an essential cause of increased production.

In offering this defence of Malthus against Keynes's criticisms, it is not meant to imply that Malthus's model of effective demand is perfect. On the contrary, it is deficient at the theoretical level, at the empirical level, and at the policy level. At the theoretical level it lacks, for example, any *explicit* reference to the concept of propensity to consume, and does not *explicitly* recognise an inverse

relationship between income and propensity to consume.<sup>19</sup> At the empirical level, given the inadequacy of statistical information at the time, Malthus was unable to supply statistical data to illustrate, support or test his argument. At the policy level, Malthus did not provide any practical suggestions for enhancing effective demand through redistribution. On the question of the distribution of property, for example, he was reluctant to suggest any measure (such as the abolition of the practice of primogeniture) that would alter the existing distribution of property, on the grounds that such measures would cause social and political turbulence. On this issue, as on others, the political element of his political economy dominated the economic element.

Malthus's recognition of the reciprocity of production and distribution, and of the need to consider distribution as an essential factor of production, could be interpreted (in modern terms) as an attempt to provide a synthesis of supply-side and demand-side theories of growth, and as such might claim to be his most valuable contribution to economics.

## Conclusion

There appears to have been a collective assumption in the secondary literature that, at least in his criticisms of Malthus, Keynes was right. Even those who argue that his *praise* for Malthus was excessive, or misplaced, do not seem to consider the possibility that his *criticism* might also have been excessive or misplaced. Malthus being unable to respond, Keynes's critique has remained unassailed; the weaknesses he alleged have become part of the authorised version of Malthus's economics.

But if Malthus had been confronted with Keynes's criticisms, would he have accepted or rejected them? This paper suggests that, on the basis of concepts and principles clearly outlined in Malthus's texts, he could have mounted a reasoned and persuasive counter-argument. Whether or not Keynes would have accepted Malthus's response is, of course, another matter.

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## Notes

1 An important exception is P. Lambert (1962). As noted below, Lambert briefly (but vigorously) defended Malthus against Keynes's second criticism – viz. that Malthus relied on the 'facts of common observation' and 'failed to furnish an alternative construction'.

2 ‘Malthus n’analyse pas le rôle du taux de l’intérêt dans son système ... nulle part il n’examine si les fluctuations de l’intérêt n’importent pas pour sa thèse de l’excès d’épargne’ (Lambert 1962, pp. 803-4). The closeness of the link between Malthus and Keynes has been expressed even more strongly by Lambert in an earlier publication where he described Keynes as the most celebrated disciple of Malthus and argued that, although not all of Keynes can be found in Malthus, the link is more intimate than Keynes believed, and that the *General Theory* is essentially a modern exposition of Malthus’s thought: ‘La parenté entre les deux auteurs est plus intime encore que Keynes lui-même ne l’a cru ... Certes Keynes n’est pas tout entier dans Malthus. Mais les liaisons que nous avons établies, et qui portent sur des principes fondamentaux, nous font croire que la *Théorie générale* est, dans son essence, un exposé moderne de la pensée de Malthus’ (Lambert 1957, pp. 7, 14, 16).

3 ‘La parenthèse est de trop. Elaborer une théorie imparfaite, obscure par endroits, quelquefois même contradictoire, mais extrêmement riche en principes nouveaux et vrais, est autre chose qu’un simple appel aux faits. D’ailleurs – seulement Keynes ne le sait pas – ce n’est pas en évoquant les faits, mais par une argumentation implacable que Malthus avait contraint J.-B. Say à la tautologie et à la défaite’ (Lambert 1962, p. 826).

4 The short article by Hollander (1962), entitled ‘Malthus and Keynes: A Note’, was mainly concerned with Malthus’s views on money, investment and hoarding; and does not address the question of Keynes’s criticisms of Malthus.

5 In his *Definitions in Political Economy* (1827, pp. 240-1) Malthus gave separate definitions of interest and profits, with the obvious intention of distinguishing between them, but the terminology used in the definitions is ambiguous. The ‘profits of stock’ are defined as ‘the difference between the value of the capital advanced, and the value of the commodity when sold or used’; ‘interest of money’ is defined as ‘The net profits of a capital in money separated from the risk and trouble of employing it’; and ‘The profits of industry, skill, and enterprise’ are defined as ‘That portion of the gross profits of capital, independent of monopoly, which remains after deducting the net profits, or the interest of money’. The use of the term ‘net profits’ in the definition of ‘interest’ confuses the distinction between profits and interest. It would have been more appropriate, and more in keeping with his apparent intention, to have used a term such as ‘returns’ instead of ‘net profits’ in the definition of interest.

6 However, the statement ‘a marked fall in the rate of interest ... evinced an abundance of capital, and a consequent difficulty of finding a profitable employment for it’ (Malthus 1989a, II, p. 58) does not specifically distinguish between loan capital and equity capital, and therefore does not establish a clear distinction between interest and profit.

7 This distinction is perhaps more effectively conveyed by the French term ‘*offre*’ than by the English ‘supply’.

8 References to the concept of redundant capital can be found in Malthus 1989b, I, pp. 161, 356, 357, 392-3, 400, 404, 410, 469, 478, 499, 547, 565, 570, 572, 576; II, pp. 224, 260, 281, 425.

9 cf. ‘No political economist of the present day can by saving mean mere hoarding’ (*Principles* 1989b, I, p. 32).

10 The index to Malthus 1989b lists 30 different applications of the distinction between power and will, or between means and motives.

11 In the terminology of causation theory, the potential lenders have the material cause (the supply of loanable funds) but not the final cause (the motive to lend), while the potential borrowers have the final cause (the desire to borrow) but not the material cause (adequate prospects of servicing and repaying).

12 The index to Malthus 1989b contains 37 references in the first edition of the *Principles* to counterbalancing causation (also called, by Malthus, countervailing, counteracting, conflicting or opposing causation).

13 O'Leary (1942, p. 918), referring to the first of Keynes's two criticisms, asked: 'Could it be that the puzzle left unsolved by Malthus stimulated Keynes's thinking upon the liquidity-preference theory of interest?'

14 Malthus 1989b, Ch. VII. In the second edition of the *Principles*, Chapter VII was renamed Book II, Chapter I.

15 The one item which might puzzle some readers is population. After arguing so persuasively in his *Essay on Population* that excessive population growth will cause misery and vice, it is at first sight surprising that Malthus in his *Principles of Political Economy* should regard population as a cause of economic growth. He even went so far as to say that population is a *necessary* (though not a sufficient) cause of growth (1989b, I, 347-8). The explanation of this paradox is that in Section II of Chapter VII he was arguing that although population and the other supply-side factors are necessary causes of growth, they are not sufficient causes. It should be remembered that Malthus was not opposed to population growth as such. He insisted in reply to critics that he was not 'an enemy to population' (1989a, II, p. 205); and that he hoped society would attain its 'full complement' (1989b, II, p. 158) of population. He was opposed only to a situation in which population grows faster than the food supply.

16 Although Malthus insisted that a wider distribution of income and wealth could be a stimulus to economic growth, he also warned that an excessively wide distribution could be prejudicial to growth, because of its harmful effect on production. See, for example, *Principles* 1989b I, 433: 'it is so very obvious that a division [of landed and other property] to a certain extent must be beneficial, and beyond a certain extent prejudicial to the increase of wealth'. Here, as in many other cases, he invoked 'doctrine of proportions' methodology. (See Pullen 1982.)

17 In saying that distribution is both a cause and an effect of production Malthus was applying the idea of reciprocal or interactive causation - another frequent and central feature of his methodology. (See under 'causation' in the index to Malthus 1989b, II, p. 477.)

18 It should be remembered that Keynes's criticisms of Malthus appeared in his essay on Malthus published in 1933, and that this essay was never revised. His view that Malthus's statements on effective demand were not an 'alternative construction' but merely 'an appeal to the facts of common observation' appears to have been contradicted, or at least somewhat modified, by the following statement three years later in the *General Theory*: 'in the later phase of Malthus the notion of the insufficiency of effective demand takes a definite place as a scientific explanation of unemployment' (Keynes 1973, p. 362). This would suggest a movement by Keynes towards a closer affiliation with Malthus. However, some commentators have seen evidence of a movement in the opposite direction: 'Nous considérons que l'appréciation enthousiaste de Malthus par Keynes dans les *Essays in Biography* (1933) a été rectifiée dans la *General Theory* (1936). Ce changement d'attitude doit être en effet bien fâcheux pour qui soutient que la parenté entre les deux économistes serait étroite' (Gordon and Jilek 1965, p. 121).

19 However, the absence of an *explicit* reference is perhaps not a serious defect. The idea that propensity to consume is lower for those on higher incomes than for those on lower incomes is *implicit* in Malthus's discussion of the causes of poverty in America, and in his discussion of the beneficial effects of the breaking up of large feudal estates.

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