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MALTHUS AND KEYNES

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TWO very interesting articles have been published in recent years which point out the remarkable extent to which much of Marx's thinking has tended "to foreshadow the modern theory of effective demand."[1] The writers have placed particular emphasis upon the degree to which Marx has anticipated the general theory of J. M. Keynes. The thesis of this paper is that Malthus deserves a much more prominent position than Marx as a forerunner of Keynes.

Part I reviews the points of similarity which exist between Malthus' general theory and that of Keynes. Part II sets forth some evidence upon the question of whether Malthus exerted any influence on Keynes, and Part III offers some general conclusions.

I

In beginning a consideration of the bases on which the theories of Malthus and Keynes may be compared, it is pertinent to observe that the efforts of both men were stimulated by the existence of widespread involuntary unemployment of labor and capital. Writing in the post-Napoleonic wars period, during which time industrial depression in Britain caused serious unemployment of labor and capital,[2] Malthus set out to explain why unemployment could occur, as well as to suggest steps which might be taken to eliminate it. Although he made a blanket criticism of the abstract, deductive method of analysis which had been developed by Ricardo and Say,[3] he was especially incensed by the unreality of their argument that general market gluts, and

[1] S. S. Alexander, "Mr. Keynes and Mr. Marx," *Review of Economic Studies*, VII (1939), 123–25, and Joan Robinson, "Marx on Unemployment," *Economic Journal*, LI (1941), 234–48.

[2] James Bonar, *Malthus and His Work* (London, 1885), pp. 284 and 289–90.

[3] T. R. Malthus, *Principles of Political Economy Considered with a View to Their Practical Application* (London, 1820), Introd., esp. pp. 20–24.

hence involuntary unemployment of labor and capital, were inconceivable because goods were the market for goods.[4]

It is manifest that Keynes's *General Theory* is a product of the worst period of involuntary unemployment of labor and capital the world has ever known. Like Malthus, Keynes deplored the general impracticability of classical theory because of its fanciful postulates.[5] Furthermore, he centered his fire on the classical school's contention that involuntary unemployment of labor and capital is impossible.[6] It seems clear that Keynes's main purpose in writing his *General Theory* was to expose the error of the classical position and to explain why involuntary unemployment can and often does exist, as well as to suggest possible measures for preventing its occurrence.

The general structures of Malthus' *Principles* and Keynes's *General Theory* provide interesting points of similarity. As Professor Hollander has remarked, Malthus' *Principles* is not a systematic treatise on economics but rather "a group of associated chapters dealing critically with certain economic principles which doctrinal controversy and current events had brought to the fore."[7] In many respects the same words can be

[4] *Ibid.*, pp. 8–9 and chap. vii, sec. iii. Ricardo and Say contended that money is merely a lubricant in the exchange process in which fundamentally goods trade for goods. Because human wants are insatiable, they argued, and inasmuch as everything saved becomes invested, there could never occur a general market glut because one half of the goods in the market provide the market for the other half. They admitted that temporary gluts for particular commodities might occur because of entrepreneurial errors of judgment in interpreting market conditions, but such gluts would be quickly ended by market adjustments. For a statement of this argument, cf. J. B. Say, *Treatise on Political Economy* (Philadelphia, 1827), pp. 76–83, 299, and 304–5; *Letters to Thomas Robert Malthus on Political Economy and Stagnation of Commerce by Jean Baptiste Say* (London, 1936), pp. 34–36. Also cf. David Ricardo, *Principles of Political Economy and Taxation* (London, 1817), pp. 398–412; James Bonar (ed.), *Letters of David Ricardo to Thomas Robert Malthus, 1810–1823* (Oxford, 1887), pp. 43, 45, 54, 101, 169–70, and 174; *David Ricardo's Notes on Malthus' Principles of Political Economy* (Baltimore, 1928), pp. 160 ff.

[5] J. M. Keynes, *The General Theory of Employment, Interest and Money* (New York, 1936), chaps. i and ii. By "classical economists" Keynes means Ricardo and his "followers," including J. S. Mill, Marshall, Edgeworth, and Pigou.

[6] *Ibid.*, chap. ii.

[7] *David Ricardo's Notes on Malthus . . . .*, Hollander's Introd., p. xxi.

used to describe Keynes's *General Theory*. More specifically, Malthus' Introduction and Keynes's chapters i and ii launch their respective author's assault upon the bastion of classical theory. Once the veil of agricultural illustrations has been lifted, Malthus' underlying theory of the effect of savings, investment, effective demand, and money upon the progress of wealth and the level of income and employment of labor and capital unfolds itself with a remarkably Keynesian flavor. The concluding section of Malthus' *Principles*, with its emphasis upon unproductive consumption and a public works program, is impressively similar in content and tone to Keynes's final chapter.

Another general basis for comparing Malthus and Keynes is the emphasis both have placed upon the dynamic aspects of economic phenomena. Malthus considered it the task of an economist "to trace distinctly the operations of that circle of causes and effects in political economy which are acting and re-acting on each other, so as to foresee their results, and lay down general rules accordingly."[8] He fully realized the great significance for economic analysis of a clear-cut distinction between short- and long-run effects.[9] We are all familiar with the long-run implications of classical theory. Malthus, although he recognized the usefulness of long-run equilibrium analysis, stressed the short-run aspects of economics because he felt that such an approach rendered economic theory much more practical for the purpose of aiding public policy-makers in their decisions.[10] Evidence of this is the importance he attached to "effective demand."[11] He observed that

[8] *Principles*, p. 16.

[9] J. M. Keynes, *Essays in Biography* (New York, 1933), pp. 139–40, letter of Malthus to Ricardo, January 26, 1817. In his *Essays* Keynes has quoted from several unpublished letters of Malthus to Ricardo, which had been discovered by Mr. Piero Sraffa (cf. p. 138). He has extracted the parts of Malthus' side of the correspondence which "show Malthus' complete comprehension of the effects of excessive saving on output *via* its effects on profits" (p. 141).

[10] *Ibid.*, p. 139; also Malthus, *Principles,* Introd. and pp. 521–22.

[11] Cf. *infra*, pp. 906–8 and 909–11. It is admitted that Malthus was not alone in his time in emphasizing inadequate "effective demand" and its associated ideas as the important cause of unemployment. In *Nouveaux principes*, Sismondi had some of the same ideas.

in the short run price results from the interaction of supply and demand in a competitive market. More concerned with market rather than natural price, he was inclined to dismiss cost of production somewhat lightly.[12] In his analysis of profits, Malthus again drew a distinction between the short and long run. He agreed that Ricardo was correct in his belief that in the long run rising food costs would cause a general wage increase which would gradually eliminate profits.[13] Such a profit theory was unsatisfactory however, because it failed to explain the much more significant short-period fluctuations in profits.[14] He viewed profit as the margin between the selling price of a good and its cost of production.[15] Thus, when "effective demand" outran supply, price would rise and the profit margin would increase.[16] The reverse, of course, would hold when supply outran demand. Viewed otherwise, if capital should be accumulated in too great abundance compared with the population, profits would fall; and if capital should be scarce in relation to population, profits would be high.[17]

It is commonly recognized that one of the outstanding characteristics of Keynes's *General Theory* is the significant place it gives to the dynamic forces which act and react upon economic life. As Keynes states in his Preface, the book is "primarily a study of the forces which determine changes in the scale of output and employment as a whole."[18] Abandoning the traditional belief that the influence of money is something "separate from the general theory of supply and demand," he has utilized money as a "link between the present and the future" in order to analyze "the economic behaviour of the present under the influence of changing ideas about the future."[19] His emphasis is on the theory

[12] *Principles*, pp. 76–78.

[13] *Ibid.*, pp. 308–9.

[14] *Ibid.*

[15] *Ibid.*, pp. 334–35.

[16] *Ibid.*

[17] *Ibid.*, pp. 306–7, 317, and 325–30.

[18] *General Theory*, p. vii.

[19] *Ibid.*, pp. vii and 293. Malthus also felt that it was wrong to assume that money was something separate and distinct from the general theory of supply and demand (cf. *infra*, p. 913).

of "shifting equilibrium" rather than on that of "stationary equilibrium."[20]

A careful reading of Malthus' *Principles* discloses that he has assumed that the economic reactions of men are largely governed by habit or that there are certain psychological tendencies which regulate the economic activities of human beings. He spoke, for example, of "habits of saving" and "consumption habits"[21] and also conceived of a "passion for consumption" and a "passion for accumulation."[22] He observed that

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 a 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 consumed.[23]

Even "propensity to spend" was included in his terminology.[24] "Whenever capital increases too fast," he maintained, "the motive to accumulation diminishes, and there will be a natural tendency to spend more and save less."[25] On the other hand, "when profits rise, the motive to accumulation will increase, and there will be a tendency to spend a smaller proportion of the gains, and to save a greater."[26] In his opinion savings tended to increase faster than the national income in prosperous times.[27] Nor are the

[20] *Ibid.*, p. 293.

[21] *Principles*, pp. 374, 450–51, 464–66, and 487–88. He stated, for instance, "With regard to the capitalists who are so engaged [in production], they have certainly the power of consuming their profits, or the revenue which they make by the employment of their capitals; and if they were to consume it, with the exception of what could be beneficially added to their capitals, so as to provide in the best way both for an increased production and increased consumption, there might be little occasion for unproductive consumers. But such consumption is not consistent with the actual habits of the generality of capitalists. The great object of their lives is to save a fortune, both because it is their duty to make a provision for their families, and because they cannot spend an income with so much comfort to themselves, while they are obliged perhaps to attend a counting-house for seven or eight hours a day" (p. 465).

[22] *Ibid.*, pp. 365–66.

[23] *Ibid.*, p. 365.

[24] *Ibid.*, p. 469.

[25] *Ibid.*, p. 516.

[26] *Ibid.*

[27] *Ibid.*, pp. 465–66. He stated: "Almost all merchants and manufacturers save, in prosperous times, much more rapidly than it would be possible for the national

foregoing expressions isolated examples of Malthus' assumption of psychological propensities. On the contrary, such an assumption is basic to his general theory.

There seems little need to point out the importance of psychological propensities in Keynes's theory. It is unquestionably true that the entire superstructure of his general theory rests upon basic assumptions which he makes concerning the habits of human beings. We are all familiar with his three "fundamental psychological factors," namely, the "propensity to consume," the "psychological attitude to liquidity," and the "psychological expectation of future yield from capital assets."[28] His argument is studded with such related concepts as "inducement to invest," "propensity to save," "propensity to spend," "propensity to hoard," and "liquidity preference." He lays it down as

> a fundamental psychological law, upon which we are entitled to depend with great confidence both *a priori* from our knowledge of human nature and from the detailed facts of experience [that] men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase of their income.[29]

It seems undeniably true that the validity of his theory of changes in "effective demand," and consequently much of his general theory, depends upon the soundness of this assumption.[30] It is admitted, of course, that Keynes has developed much more thoroughly than Malthus the importance of psychological propensities in economic theory.

An outstanding feature of the theories of Malthus and Keynes is that both have rejected Say's law[31] and have gone behind cost of production to effective demand. Let us examine first Malthus'

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capital to increase, so as to keep up the value of the produce. But if this be true of them as a body, taken one with another, it is quite obvious that, with their actual habits, they could not afford an adequate market to each other by exchanging their several products."

[28] *General Theory*, pp. 246–47.

[29] *Ibid.*, p. 96. He makes this assertion repeatedly (cf. pp. 29–30, 97, 98, 114, 120, 127, and 251).

[30] Malthus' theory of effective demand rests upon essentially the same postulate (cf. *supra*, p. 905; also *infra*, pp. 909–10).

[31] Malthus, *Principles*, pp. 353–54; Keynes, *General Theory*, p. 26.

ideas on effective demand. Although he did not expressly define the term, by "effective demand" Malthus meant "the power and the will" of the community to demand commodities.[32] He emphasized demand for consumers' goods, but there is no evidence that he completely disregarded demand for capital goods. He agreed with Smith, Ricardo, and others that the progress of wealth depends upon saving and a cumulative process of capital formation.[33] His disagreement with them was on the following grounds. Smith and the Ricardian school revered "parsimony" and considered that the greater the propensity of a given community to save, the more rapid would be the progress of wealth enjoyed by it. Malthus opposed this generalization because he believed that saving could be pushed to excess.[34] That is, he argued, for every economy at any stage in its development there is a certain proportion between the amount of income saved in a given period and the amount spent for consumption which is most conducive to the progress of wealth. Some saving and capital formation are necessary for the growth of wealth. The amount of saving, however, cannot be pushed too far at the expense of consumption because such a process would reduce effective demand for commodities,

[32] *Principles*, chap. vii.

[33] *Ibid.*, pp. 8–9 and 352 ff.

[34] Concerning the necessary balance between savings and consumption, Malthus wrote:

"Adam Smith has stated, that capitals are increased by parsimony, that every frugal man is a public benefactor, and that the increase of wealth depends upon the balance of produce above consumption. That these propositions are true to a great extent is perfectly unquestionable. No considerable and continued increase of wealth could possibly take place without that degree of frugality which occasions, annually, the conversion of some revenue into capital, and creates a balance of produce above consumption; but it is quite obvious that they are not true to an indefinite extent, and that the principle of saving, pushed to excess, would destroy the motive to production. . . . . If consumption exceed production, the capital of the country must be diminished, and its wealth must be gradually destroyed from its want of power to produce; if production be in a great excess above consumption, the motive to accumulate and produce must cease from the want of will to consume. The two extremes are obvious; and it follows that there must be some intermediate point, though the resources of political economy may not be able to ascertain it, where, taking into consideration both the power to produce and the will to consume, the encouragement to the increase of wealth is the greatest" (cf. *ibid.*, pp. 8–9).

In chap. vii, sec. ix, of his *Principles*, Malthus applied this idea to the post-Napoleonic wars situation.

thus lowering profits and eliminating the entrepreneur's motive to produce. It was his opinion that in general "demand is quite as necessary to the increase of capital as the increase of capital is to demand."[35] This was true because "they mutually act upon and encourage each other, and neither of them can proceed with vigour if the other be left far behind."[36] He branded as false the Ricardian-Say argument that "the desire of accumulation will occasion demand just as effectually as a desire to consume."[37] In this connection he stated:

> I cannot by any means agree with you in your observation that "the desire of accumulation will occasion demand just as *effectually* as a desire to consume" and that "consumption and accumulation equally promote demand." I confess indeed that I know no other cause for the fall of profits which I believe you will allow generally takes place from accumulation than that the price of produce falls compared with the expense of production, or in other words that the *effective* demand is diminished.[38]

He clearly recognized, finally, the significance of the prevailing distribution of income and wealth as a factor in determining the propensities of a community to save and spend, and, consequently, its effective demand.[39]

The theory of effective demand is the heart of Keynes's general theory. He employs the term to mean the amount the community is expected to spend on consumption plus investment in a given time period.[40] Keynes, just as Malthus, grants that for the progress of national income there must be a cumulative process of capital formation. He characterizes as "absurd, though almost universal," however, the idea that "an act of individual saving is just as good for effective demand as an act of individual consumption."[41] Such an idea, he explains, "has been fostered by the fallacy . . . . that an increased desire to hold wealth, being much the same thing as an increased desire to hold investments, must,

[35] *Principles*, p. 399.

[36] *Ibid.*

[37] Cf. *Letters of David Ricardo to Thomas Robert Malthus*, p. 43.

[38] *Economic Journal*, XVII (1907), p. 275, Malthus' letter to Ricardo of October 9, 1814, published with a note by Professor Foxwell (Malthus' italics).

[39] *Principles*, pp. 9–10, 418–19, 430–31, 479–86, and 507.

[40] *General Theory*, p. 29.

[41] *Ibid.*, p. 211.

by increasing the demand for investments, provide a stimulus to their production; so that current investment is promoted by individual saving to the same extent as present consumption is diminished."[42] Keynes holds to the argument that excessive savings can shut off the effective demand of the community. He deplores "in many academic discussions of capital . . . . an inadequate appreciation of the fact that capital is not a self-subsistent entity existing apart from consumption."[43] "On the contrary," he continues, "every weakening in the propensity to consume regarded as a permanent habit must weaken the demand for capital as well as the demand for consumption." He likewise observed the significance of the pattern of income distribution as a factor in determining effective demand.[44]

The similarity between Malthus' and Keynes's ideas upon effective demand are even more apparent if we examine the part effective demand plays in each man's theory of employment. Malthus has constructed a business-cycle theory around the processes of saving, investment, and consumption. As business conditions improve and profits increase, he explained, capitalists and other wealthy people have a tendency to save a larger portion of their income.[45] This increase in saving serves to employ more "productive" laborers and to increase the quantity of goods available for purchase.[46] In view of the fact that in the short run the number of laborers remains the same, and because it takes time for them to develop new consumption habits and to cultivate a taste for luxuries,[47] the aggregate demand of labor for consumer goods cannot increase fast enough to fill the gap in effective demand which has been opened by the saving of the capitalists, landlords, and other wealthy persons.[48] The result is that the increased

[42] *Ibid.*

[43] *Ibid.*, p. 106.

[44] *Ibid.*, pp. 92 and 109.

[45] *Supra*, pp. 905 f.

[46] *Principles*, pp. 351 ff. Malthus, like Smith, defined "productive labor" as that resulting in material objects which satisfy human desires (cf. chap. i, sec. ii, esp. pp. 49–50).

[47] *Ibid.*, pp. 358–59 and 469–70; also Keynes, *Essays in Biography*, p. 140, Malthus' letter of January 26, 1817, to Ricardo.

[48] *Principles*, pp. 359–60.

supply of goods can be sold only at prices lower than the cost of production, profits are wiped out, and "both the power and the will to save" are brought to an end.[49]

It is patent that Malthus explained the collapse of profits in terms of a deficient consumer demand which grows out of the saving process. Somewhere in the circular income flow funds become stagnant. He was not very explicit, but he seemed to imply that, because of consumption habits which change only slowly, laborers tend to hold increasingly large sums of idle money as their incomes expand. It is very difficult to discover whether or not he believed that everything saved becomes invested. At one point he remarked that "it is stated by Adam Smith, and it must be allowed to be stated justly, that the produce which is annually saved is as regularly consumed as that which is annually spent, but that it is consumed by a different set of people."[50] In another place he noted, however, that "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."[51] He was of the opinion that in the saving process labor does not gain everything "lost" by the capitalist. The general impression he gave, although he definitely stated it nowhere, is that hoarding does play a significant role in aggravating a deficiency in effective consumer demand.[52] He declared, for example, that "a very serious error" of Ricardo, Say, and James Mill "consists in supposing that accumulation insures 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."[53] It seems fair to conclude that

[49] *Ibid.*, pp. 352–53.

[50] *Ibid.*, p. 31. Malthus went on to state that "no political economist of the present day can by saving mean mere hoarding" (p. 32).

[51] *Ibid.*, p. 369.

[52] There is strong evidence that Ricardo and Say felt that Malthus' theory of a deficient consumer demand depended on the existence of hoarded funds (cf. *Ricardo's Notes on Malthus' Principles*, pp. 164, 173–74, and 225; *Ricardo's Letters to Malthus*, pp. 43, 45, and 54; *Say's Letters to Malthus*, pp. 34–36).

[53] *Principles*, p. 359.

in Malthus' theory excessive savings cause a damming-up of idle purchasing power, but he was not altogether clear as to where the damming-up process takes place.

Malthus employed his theory of effective demand to explain changes in the level of national income and employment. He pointed out the close relationship between changes in effective demand, changes in the level of national income, and changes in the volume of employment of labor.[54] He argued that increases in effective demand lead to a higher aggregate value of the national product, to higher profits, to an expanding demand for labor, and, hence, to a higher national income.[55] Decreases in effective demand, on the other hand, lead to a decline in the aggregate value of the national product, to reduced profits, to a contracting demand for labor, and, hence, to a lower national income.

Although Malthus made much use of profits in his theory, the "marginal efficiency of capital" concept escaped him completely. Likewise, not only did the "liquidity preference" theory of interest elude him, but apart from mentioning several times the "interest of money" and pointing to a relationship between the interest rate and profits,[56] he overlooked entirely the rate of interest.

There is no need in this paper to present a detailed account of Keynes's theory of employment.[57] For the purpose of comparing it with Malthus' thought upon the same subject, perhaps a brief outline would be helpful. The main line of argument is as follows. When, for any reason, employment of labor increases, there will likewise occur an increase in the community's aggregate real income.[58] "The psychology of the community" is such, however, that aggregate consumption increases with an expansion of aggregate income, but not by so much as the increase in income.

[54] *Ibid.*, chap. vii, esp. secs. vii and viii.

[55] *Ibid.*, pp. 417–22.

[56] *Ibid.*, pp. 13, 158, 318–19, 372–73, and 476.

[57] For brief outlines of Keynes's theory of employment, cf. *General Theory*, pp. 27–32 and chap. xviii. Also, A. P. Lerner, "Mr. Keynes' General Theory of Employment, Interest and Money," *International Labor Review*, XXXIV (1936), 435–54; J. E. Meade, "A Simplified Model of Mr. Keynes' System," *Review of Economic Studies*, IV (1936–37), 98–107; G. Cassel, "Keynes' General Theory," *International Labor Review*, XXXVI (1937), 437–45.

[58] *General Theory*, pp. 28 ff.

The result is, therefore, that businessmen would lose money if the entire increment of employment were devoted to producing consumers' goods. Unless there is to occur a decline in the level of employment, there must be enough current investment to absorb the balance of output over consumption. Otherwise the businessmen's receipts would be below the amount required to maintain the level of employment. Thus, given the propensity to consume, the "equilibrium level of employment" depends upon the amount of current investment. The amount of current investment depends upon the "inducement to invest," which, in turn, is a derivative of the relationship between the "schedule of the marginal efficiency of capital" and the "complex of rates of interest on loans of various maturities and risks." If the propensity of a community to consume and the rate of new investment are given, then there will be only one level of employment consistent with equilibrium, since any other level would lead to an inequality between the aggregate supply price of output and the aggregate demand price. The prevailing level of employment, therefore, depends upon effective demand. It cannot be greater than full employment because the real wage of labor cannot be less than the marginal disutility of labor. There is no reason in general to expect it to be equal to full employment, which is not the usual case as assumed by the classical school, but is a special case realized only when the propensity to consume and the inducement to invest stand in a particular relationship. That is, it can only exist when "by accident or design" current investment affords an amount of demand just equal to the excess of the aggregate supply price of the output resulting from full employment over what the community chooses to spend on consumption when it is fully employed.

Malthus did a remarkable job of fitting the idea of effective demand into a general theory of employment. The weakness of his argument seems to be that, in placing major emphasis upon consumption expenditures, he overlooked the significance of investment expenditures as a part of effective demand. Keynes has made a considerable advance over Malthus because he has given proper weight to the importance of the volume of current investment expenditures, as determined by the schedule of the marginal efficiency of capital and the interest rate.

Another point upon which the theories of Malthus and Keynes can be compared is in regard to the role of money. Ricardo, Say, and Mill considered money to be merely a lubricant in the exchange process.[59] This was not true of Malthus. He was, perhaps, the first writer to speak of "purchasing power" of money.[60] It is certain that he understood the activating influence monetary changes can have on economic life. He stated, for example, the following:

> 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 surprized 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 to set it aside in our reasonings may often lead us wrong.[61]

Changes in the value of money, with their resultant effect upon the value of the national product, profits, the volume of employment, and the national income, have an integral part in his general theory.[62]

In the Preface of his *General Theory*, Keynes explained that when he wrote his *Treatise on Money* he "was still moving along the traditional lines of regarding the influence of money as something so to speak separate from the general theory of supply and demand."[63] Before he had finished it, however, he "had made

[59] Cf. *supra*, p. 902, n. 4.

[60] *Principles*, pp. 399 and 493.

[61] *Ibid.*, pp. 361–62 n. The same sentiment is expressed later (cf. p. 444).

[62] *Ibid.*, chap. vii, particularly sec. viii.

[63] *General Theory*, p. vi.

some progress toward pushing monetary theory back to becoming a theory of output as a whole." He felt that in his *General Theory* he had completed the task.[64] He deplored "the conviction, which runs, for example, through almost all Professor Pigou's work, that money makes no real difference except frictionally and that the theory of production and employment can be worked out [like Mill's] as being based on 'real' exchanges."[65] The significance of money, he asserted, springs from its being a "link between the present and the future."[66] That is, "we cannot even begin to discuss the effect of changing expectations on current activities except in monetary terms."[67]

Malthus and Keynes both suggested the use of a public works program to increase effective demand. In the concluding section of his *Principles*, Malthus asserted that the commercial depression in 1815–20 was brought on because the transition from war to peace had witnessed "a general diminution of consumption and demand."[68] He felt that this fall in demand could be explained partially at least by the fact that taxes which "had been returned" at the cessation of hostilities, and "the excess of individual gains above expenditure," both of which had been so largely employed as government revenue during the war, were probably saved for the most part in the post-war period, thus causing a decline in consumption.[69] In order to restore an effective demand which would assure an increase in the national income and would encourage further investment, Malthus advocated a public works program for the maintenance of "unproductive consumers."[70] In a most revealing statement he expressed the following belief:

[64] *Ibid.*, p. vii.

[65] *Ibid.*, pp. 19–20.

[66] *Ibid.*, p. 293.

[67] *Ibid.*, p. 294.

[68] *Principles*, p. 499.

[69] *Ibid.* He pointed out: "If some of the principal governments concerned spent the taxes which they raised, in a manner to create a greater and more certain demand for labour and commodities, particularly the former, than the present owners of them, and if this difference of expenditure be of a nature to last for some time, we cannot be surprised at the duration of the effects arising from the transition from war to peace" (p. 500).

[70] Malthus argued that a community characterized by a deficient effective demand required a body of unproductive consumers, e.g., "menial servants, doctors, and lawyers." He included anyone whose efforts did not result in material objects

It is also of importance to know that, in our endeavours to assist the working classes in a period like the present, it is desirable to employ them in unproductive labour, or at least in labour, the results of which do not come for sale into the market, such as roads and public works. The objection to employing a large sum in this way, raised by taxes, would not be its tendency to diminish the capital employed in productive labour; because this, to a certain extent, is exactly what is wanted; but it might, perhaps, have the effect of concealing too much the failure of the national demand for labour, and prevent the population from gradually accomodating itself to a reduced demand. This however might be, in a considerable degree, corrected by the wages given. And altogether I should say, that the employment of the poor in roads and public works, and a tendency among landlords and persons of property to build, to improve and beautify their grounds, and to employ workmen and menial servants, are the means most within our power and most directly calculated to remedy the evils arising from that disturbance in the balance of produce and consumption, which has been occasioned by the sudden conversion of soldiers, sailors, and various other classes which the war employed, into productive labourers.[71]

It was Malthus' opinion that a public works program would stimulate an increase in the national income and would bring about a rise in profits. At such a stage it would be possible to save some of the increased profits and thus to rebuild the capital equipment lost during the latter years of the war.[72]

Keynes also perceived the significance of a public works program as a stimulus to effective demand.[73] Malthus was concerned with the increase in the expenditures of unproductive consumers. Keynes stressed not only the increased consumption expenditures occasioned by a public works program, but also increased expenditures on investment goods. Also, he employed the multiplier principle to show the cumulative effect of public expenditures.

There is one other basis upon which the theories of Malthus

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available for market sale. He stated, e.g., the following: "It has been already shown that, under a rapid accumulation of capital, or more properly speaking, a rapid conversion of unproductive into productive labour, the demand compared with the supply of material objects, would prematurely fail, and the motive to further accumulation be checked, before it was checked by the exhaustion of the land. It follows that, without supposing the productive classes to consume much more than they are found to do by experience, particularly when they are rapidly saving from revenue to add to their capitals, it is absolutely necessary that a country with great powers of production should possess a body of unproductive consumers" (*ibid.*, p. 463).

[71] *Ibid.*, pp. 511–12. [72] *Ibid.*, pp. 512–13. [73] *General Theory*, pp. 114–28.

and Keynes may be compared. We have seen that both writers have considered the volume of employment to be a function of effective demand.[74] Both have also made use of relative movements in real and money wages in their wage theory. Malthus traced changes in real and money wages during the fourteenth to the nineteenth centuries and reached the conclusion that with rising prices real wages fell.[75] He explained, however, that "the periods of the lowest wages, or of the greatest falls in real wages have been, when a considerable rise in the price of corn has taken place under circumstances not favourable to a proportionate rise in the price of labour."[76] By such circumstances he meant those in which the increase in the supply of labor was greater than the increase in effective demand for it occasioned by a rising price level and increased profits. He was of the opinion that when "a fall in the value of money is accompanied, as it frequently is, by a rapid increase of capital," the effective demand for labor may increase to such a degree that money wages rise faster than the price of corn, and real wages increase. To substantiate his argument, he pointed out that

> in the fall in the value of money which took place from 1793 to 1814, and which was unquestionably accompanied by a great increase of capital, and a great demand for labour, I am strongly of opinion, that if the price of labour had not been kept down by artificial means, it would have risen higher in proportion than the average price of corn; and this opinion is, I think, fairly borne out by facts.[77]

For the economy as a whole, therefore, he realized that under favourable conditions real and money wages can move in the same direction.

Keynes, of course, has made important use of relative movements in real and money wages. In his *General Theory* he has stated that in the case of changes in the general level of wages, "the change in real wages associated with a change in money-wages, so far from being usually in the same direction, is almost

[74] Cf. *supra*, pp. 911 f. Also, cf. Malthus, *Principles*, pp. 261–66.

[75] *Principles*, chap. iv, sec. v. He measured real wages in terms of relative movements in money wages and the price of corn.

[76] *Ibid.*, p. 286.

[77] *Ibid.*, pp. 287–88.

always in the opposite direction."[78] Dunlop and Tarshis cast considerable doubt upon the validity of this conclusion,[79] and Keynes appears to have admitted that he was in error.[80]

II

In view of the degree to which Malthus anticipated Keynes's general theory, it seems pertinent to examine into the question of whether Malthus had any influence upon Keynes's thinking. In his *Essays in Biography*, published in 1933, Keynes has written an excellent account of the life of Malthus in which he sheds some light upon the effect that Malthus' ideas have had upon his own general theory.[81]

Pointing out the fact that as early as 1800 Malthus had emphasized effective demand in a pamphlet entitled *An Investigation of the Cause of the Present High Price of Provisions*,[82] Keynes termed it "a certain line of approach in handling practical economic problems . . . . which to me is most sympathetic, and is, I think, more likely to lead to right conclusions than the alternative approach of Ricardo."[83] Again, following the presentation of a quotation in which Malthus, in a letter to Ricardo, stressed the great importance of effective demand, Keynes declared:

> One cannot rise from a perusal of this correspondence without a feeling 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. Time after time in these letters Malthus is talking plain sense, the force of which Ricardo with his head in the clouds wholly fails to comprehend. . . . . I must not, however, further antici-

[78] *General Theory*, p. 10.

[79] J. T. Dunlop, "The Movement of Real and Money Wage Rates," *Economic Journal*, XLVIII (1938), 413–34; L. Tarshis, "Changes in Real and Money Wages," *Economic Journal*, XLIX (1939), 150–54.

[80] Cf. "Relative Movements in Real Wages and Output," *Economic Journal*, XLIX (1939), 425–41.

[81] It is perhaps significant to note that Keynes devoted more than half of his essay to Malthus' ideas upon effective demand, savings and investment, and general market gluts. He dealt with Malthus' life and his population theory only briefly.

[82] *Essays in Biography*, p. 122. Keynes regarded this pamphlet as "the beginning of systematic economic thinking" (cf. *ibid.*, pp. 125–26).

[83] *Ibid.*, p. 122.

pate the importance of the forthcoming publication of Mr. Piero Sraffa . . . . except to show Malthus's complete comprehension of the effects of excessive saving on output *via* its effects on profits.[84]

Keynes's *Essay* is replete with praise for Malthus' work. "If only Malthus, instead of Ricardo, had been the parent stem from which nineteenth-century economics proceeded," he exclaimed, "what a much wiser and richer place the world would be today!"[85] He regarded chapter vii, section ix, of Malthus' *Principles* as "a masterly exposition of the conditions which determine the *optimum* of Saving in the actual economic system in which we live."[86] He found that "Malthus's defect lay in his overlooking entirely the part played by the rate of interest"[87] and observed most significantly:

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.[88]

Could it be that the puzzle left unsolved by Malthus stimulated Keynes's thinking upon the liquidity-preference theory of interest?

Keynes's references to Malthus in his *General Theory* are disappointingly casual.[89] He dismissed the importance of Malthus' contribution with the statement:

The idea that we can safely neglect the aggregate demand function is fundamental to the Ricardian economics, which underlie what we have been taught for more than a century. 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

84 *Ibid.*, pp. 140–41.

85 *Ibid.*, p. 144.

86 *Ibid.*, p. 145 n.

87 *Ibid.*, p. 147.

88 *Ibid.*, pp. 147–48.

89 *General Theory*, pp. 32, 362–64, and 371. Keynes (pp. 362–64) quotes several passages from Malthus without comment and refers his readers to his essay on Malthus.

conquered Spain. . . . . The great puzzle of Effective Demand with which Malthus had wrestled vanished from economic literature. You will not find it mentioned even once in the whole works of Marshall, Edgeworth and Professor Pigou, from whose hands the classical theory has received its most mature embodiment. It could only live on furtively, below the surface, in the underworlds of Karl Marx, Silvio Gesell or Major Douglas.[90]

There can be little doubt that Keynes was influenced by Malthus' ideas, 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.

III

If the findings of this paper are valid, Malthus, coping with the question of involuntary unemployment in the post-Napoleonic wars period, was led to adopt and to develop to a remarkable extent the same line of approach which Keynes has made in our own day to the problem of involuntary unemployment. Not only has he anticipated much of Keynes's general theory, but it is evident that Keynes has been influenced by some of Malthus' ideas.

A comparison of the theories of Malthus and Keynes can be made on several grounds. Writing from a background of involuntary labor and capital, both men condemned the classical school's assumption that such unemployment could not exist and both set out to explain the reasons for its occurrence. The general structures of Malthus' *Principles* and Keynes's *General Theory* are similar. Both men stressed the dynamic nature of economic phenomena. More specifically, a comparison can be made of their ideas on psychological propensities of human beings, on savings, investment, effective demand, levels of employment and national income, on money, on public works programs, and on movements of real and money wages. It seems certain, therefore, that Malthus deserves first rank as a forerunner of Keynes.

[90] *Ibid.*, p. 32.