Lecture 5: Malthus and Ricardo I

Having considered Adam Smith, we deal with the classical economic authors in this and the next lecture. The main figures here are of course Malthus and Ricardo, but we get around several others with contributions both before and after the two.

H&E chapter 6 introduces the classical era with a long section on **Bentham.** This is very justified and although somewhat lengthy it should be read carefully. **Bentham** is considered as the founding father of utilitarianism, and indeed the approach proposed and outlined on p.128 is strikingly similar to what is used today, for example in economic assessments of drugs and medical treatments. But the influence of Bentham on contemporary economics goes far beyond that. His pointing out that the individual is the only one to judge about what is good or bad, something which is so standard today that we do not pay much attention to it, was actually an innovative approach at his time. It was also controversial at his time, and it gave rise to a split between the optimistically oriented viewpoints as formulated by Smith and the pessimism which can be found in Ricardo and particularly in some of the followers.

The section on Felicific Calculus can be read quickly, and this holds also for the last section on evaluating utilitarianism.

We then proceed to one of the most important classical authors: **Thomas Robert Malthus** (1766 – 1834) is wellknown for his theory of population, as we shall see he made also other contributions and is often considered as a precursor of Keynes (including by Keynes himself), see below. On the professional side, Malthus is interesting as the first economist employed by a private firm (The East India Company), not however as a chief economist addressing the media as it would be nowadays, but as professor in the college belonging to the company.

Malthus might perhaps deserve more attention than what is given in H&E. They treat his population theory but do not mention his considerations of possible temporary disequilibrium in this chapter (although they come closer to it in the next chapter). Some more detailed formulations of the latter can be found in Lecture Note 5.

The treatment of Malthus is followed by a section on monetary theory. The distinction between the two views on money, either as stimulating economic activity or as a source of inflation, was already present in the preclassical period, but it became more outspoken. In the later parts of the section, the authors run a little ahead to later authors, and we skip this for the moment.

As far as time permits, we carry on with **David Ricardo** (1772 – 1823), who is important for several reasons. He introduced the model-oriented reasoning in economics, specifying the simplifying assumptions based on which reasoning is taking place. His main contributions were:

(1) Establishing a labour theory of value based on diminishing returns of land,

(2) A theory of distribution with implications for growth,

(3) Introducing the theory of comparative advantages in international trade,

(4) Giving a thorough treatment of tax incidence.

Some further comments on (some of) these topics are also in Lecture Note 6 (this is of course voluntary additional material, not curriculum stuff).

We read: H&E, chapter 6, possibly beginning of chapter 7.